MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 1988
James J. Blanchard, Governor

Prepared by
Department of Management and Budget

COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

STATE OF MICHIGAN

FISCAL YEAR ENDED SEPTEMBER 30, 1988

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James J. Blanchard, Governor

STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JAMES J. BLANCHARD
GOVERNOR

March 15, 1989

To: The Honorable Members of the Legislature and
to the Citizens of the State of Michigan

It is with great pleasure that I accept this Comprehensive Annual Financial Report. It has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) and is presented to you and the financial community for your increased understanding. The auditor's opinion is again unqualified, demonstrating our continued commitment to follow accounting and financial reporting practices that meet the highest and most stringent professional accounting standards.

Today, our State economy is stronger and more diverse than ever before. More people are working in Michigan today than at anytime in our history. The State leads the nation in new manufacturing investments as existing businesses expand and new business startups are increasing. For the second year in a row, more people moved into Michigan than moved away.

The Michigan formula for success is simple but comprehensive; fiscal integrity in government; investment in people and their potential; using public initiatives to spur private economic development and job creation; a commitment to excellence in education; and, preserving and enhancing the quality of life in our State.

Our fiscal integrity here in Michigan is the foundation upon which all of our investments in Michigan's future are built. We are proud that, over the past six years, we have kept spending in line with revenues, producing six honestly balanced budgets, while bringing a new commitment of fiscal integrity to the State's finances.

Sincerely,

James J. Blanchard

James J. Blanchard
Governor

STATE OF MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 1988
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STATE OF MICHIGAN

JAMES J BLANCHARD, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

P.O. BOX 30026, LANSING, MICHIGAN 48909
SHELBY P. SOLOMON, Director

The Honorable James J. Blanchard, Governor
Members of the Legislature
People of the State of Michigan

In compliance with Article IX, Section 21, of the State of Michigan Constitution and Michigan Public Act 431 of 1984, I am very pleased to submit the Comprehensive Annual Financial Report of the State of Michigan for the fiscal year ended September 30, 1988.

The State's financial condition remains strong. We have again balanced our budgets while maintaining full compliance with generally accepted accounting principles. Our improved credit ratings remain among the highest in the nation and this benefits both the State and our local units of government.

This report is prepared by the Department of Management and Budget, Office of Accounting, which is responsible for both the accuracy of the data and the completeness and fairness of the presentation. I am confident the data is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of the State's operations; and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

Reporting Standards and Presentation

Generally Accepted Accounting Principles

The State is required by statute to prepare its financial statements in accordance with generally accepted accounting principles (GAAP). The Department of Management and Budget has also voluntarily chosen to follow the recommendations of the Government Finance Officers Association for the contents of government financial reports.

Certificate of Achievement

We are proud to announce that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its Comprehensive Annual Financial Report for the year ended September 30, 1987.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements and we are submitting it to the GFOA for their consideration for another certificate.

Method of Presentation

This report uses the "reporting pyramid" approach endorsed by the Governmental Accounting Standards Board (GASB). The pyramid does not provide a consolidated State financial statement; rather, it combines funds and component units with similar accounting objectives in columns of fund types. The statements which reflect these combined fund type columns, together with related footnotes, are referred to as the "General Purpose Financial Statements." The auditor's opinion is primarily upon the General Purpose Financial Statements.

Following the General Purpose Financial Statements are the combining financial statements, schedules, and statistical data. These statements and schedules provide detail, generally by fund, for the amounts shown in the fund type columns in the General Purpose Financial Statements. The term "Comprehensive Annual Financial Report" is used to describe all of the data presented in this report.

Reporting Entity

Prior to 1982-83, the State defined its reporting entity primarily upon the extent to which the State Treasurer was responsible for the monies of the various State agencies. Basically, this included the nineteen Executive Branch departments, the Legislature, and the State portion of the court system. For the most part, all of these are subject to legislative budgetary control and are accounted for in funds within the State's central accounting system.

Beginning with 1982-83, accounting principles were changed to require a broader definition of the reporting entity and the State expanded its financial report to include "component units." The major impact of this change was the inclusion of financing authorities in these statements, even though the State (as legally defined) is not directly responsible for their obligations.

The statements of component units are now "blended" with the statements of the funds in the State's accounting system. We have, however, presented detail in the combining statements, schedules, and notes which permit the segregation of these amounts so that information excluding component units is still available.

Budgetary Reporting

Public Act 431 of 1984 requires the State to adhere to GAAP in calculating fund balance for budgetary purposes. The statute also requires that the budget must provide for an ending unreserved fund balance which is not in deficit. If accounting principles change, the statute requires the State to also implement the change in its budgetary process.

The budgetary basis departs from GAAP only in ways that do not affect unreserved fund balance. Two departures are the use of encumbrances, which GAAP does not require, and the funding of capital lease commitments on a "pay as you go" basis, rather than at lease inception. Compliance with the final updated budget for the annually budgeted operating funds is demonstrated in the budget to actual comparative statements, notes, and related supplementary schedules.

The GASB is considering many major changes in accounting principles, the full impact of which has not been estimated. Some of these changes could materially affect the budget process. If these proposals do become GAAP, however, they are not expected to be required until fiscal year 1990-91 at the earliest. The Office of Accounting and Office of the Budget will continue to follow carefully developments in this area.

Internal Control

State statutes also require each department to appoint an internal auditor and maintain adequate internal control systems. Each department is required to periodically report on the status of its internal accounting and administrative control systems and, if any material weaknesses exist, provide plans and a time schedule for addressing problem areas.

Financial Highlights - State Funds

Revenues

Revenues of the General and special revenue funds (excluding component units) are shown below (in millions):

Revenue Source	1987-88 Amount	Percent of Total	Change From 1986-87	Percentage Change
Personal Income Tax	$ 3,573.7	24%	$ 223.4	6.6%
Sales Tax	2,474.9	17	126.5	5.4
Single Business Tax	1,828.7	12	331.0	22.1
Other Taxes	2,408.1	16	12.7	.5
Federal Revenues	3,714.7	25	101.3	2.8
Other Revenues	854.3	6	50.7	6.3
Total	$14,854.6	100%	$ 845.9	

The personal income tax rate was unchanged at 4.6%. Last year's federal tax reform as well as the State's strong employment levels, however, had the effect of increasing the income tax base and increasing current year revenues. To offset the effect of federal tax reform, State legislation was passed in late 1987 which, primarily by increasing personal exemptions, is phasing in a rollback through 1990. Personal income taxes shown above are net of property tax and other credits which reduced revenues by approximately $709 million.

The State's sales and use tax rate remained at the 4% rate, with no major changes in tax base during the calendar year. Increases in the sales tax rate are being considered as a means of financing property tax reductions and school finance reform.

The single business tax is a value-added type tax that was adopted in 1975 to replace eight previous business taxes. It is somewhat more volatile than the personal income and sales taxes because of profit sensitive features in the statute. The improved State economy and especially strong receipts from the transportation manufacturing sector caused most of this year's increase. The increase is also related to a change in the way insurance companies are taxed. Many insurance companies are now paying this tax, rather than premium taxes which decreased $96.2 million.

The change in "Other taxes" reflects increases in cigarette tax revenues, as offset by the decrease in insurance premium taxes noted in the preceding paragraph. Cigarette tax revenues increased 11.4%, reflecting a tax increase from 21¢ to 25¢ per package which went into effect on January 1, 1988. The increased taxes were credited to a special "Health and Safety Fund" which is distributed to local units of government.

Federal revenue increases are primarily attributable to growth in revenues from the federal Department of Health and Human Services ($2,488.2 million). Health and welfare programs account for approximately 67% of federal revenues.

Other revenues include local ($151.8 million), services ($103.6 million), licenses and permits ($216.5 million), investment income ($71.1 million), child support recoveries ($130.2 million), and other miscellaneous sources ($181.2 million).

Not included in the above table are "Other financing sources," which include resources provided by operating transfers ($631.7 million) from other fund types and component units and capital lease fixed asset acquisitions ($26.5 million). Transfers from other fund types decreased this year, largely due to two nonroutine transactions which were recorded in the prior year. Other significant sources of transfers are from the State Lottery ($489.1 million) and Liquor Purchases Revolving ($64.6 million) Funds.

Also reflected as an "Other financing source" was $33.9 million resulting from a financial relief package for Wayne County. As part of the package, the State recovered $49.4 million in previously written down receivables from Wayne County and made a loan to the County from the common cash pool. The loan is secured by the County's share of cigarette tax receipts. The loan is interest free if certain conditions are met, so the amount recognized as an other financing source was reduced by the amount of discount recorded to reduce the loan to present value.

Expenditures

Expenditures of the General and special revenue funds (excluding component units) are shown below (in millions):

Current, Capital Outlay, and Intergovernmental Expenditures by Function (GAAP Basis)	1987–88 Amount	Percent of Total	Change From 1986–87	Percent Change
Current:				
General government	$ 758.2	4.9%	$ 147.6	24.2%
Education	4,547.9	29.6	272.7	6.4
Health and welfare	4,784.6	31.2	147.9	3.2
Public safety & corrections	774.3	5.0	86.5	12.6
Conservation, recreation, & agriculture	291.5	1.9	21.0	7.8
Labor, commerce & regulatory	596.7	3.9	.8	.1
Mental health	1,100.3	7.2	77.8	7.6
Transportation	958.2	6.2	53.8	6.0
Capital outlay (including highways)	571.5	3.7	(45.3)	(7.3)
Intergovernmental – revenue sharing	929.5	6.1	50.3	5.7
Debt service – capital lease payments	35.1	.2	9.1	35.4
Total Current Capital Outlay and Intergovernmental	$15,348.3	100%	$ 822.7	

General government expenditures include operations of the legislative and judicial branches and the executive branch functions within the Departments of Management and Budget, Attorney General, Civil Rights, Civil Service, State, and Treasury. This year's increase largely reflects a change in accounting methods used to account for out-of-period tax refunds and increases in certain distributions to local units.

The increasing education expenditure levels reflect the State's continued emphasis in its aid to both local school districts and institutions of higher education. School Aid Fund expenditures for grants to local school districts and for contributions to the Public School Employees' Retirement Fund increased $175.2 million (6.9%). General Fund grants to public universities increased $65.3 million (5.4%).

Health and welfare expenditures include operations of the Departments of Social Services and Public Health. Average welfare caseloads decreased slightly during the year and expenditure increases are primarily attributable to higher costs.

Corrections expenditures continue to increase, as new correctional facilities are being opened and capacity increases. Total capacity is being increased from a level of 12,780 as of October 1, 1984 to 21,275 in 1988, and a projected level of 31,518 in 1991.

The labor, commerce, and regulatory expenditures reflect the operations of the Departments of Licensing and Regulation, Labor, and Commerce.

Funding for the State's Mental Health programs has been increased in recent years for both State institutions and community based programs.

Transportation expenditures increased because of increases of $36.4 million in the Michigan Transportation Fund and $33.7 million in the Comprehensive Transportation Fund.

Capital outlay expenditures primarily reflect State Trunkline Fund highway expenditures which amounted to $459.3 million, a decrease of $13.6 million.

The changes in revenue sharing distributions to local units are related to changes in State tax collections, which were up this year because of the strong economy.

Cash and Debt Management – State Funds

The State Treasurer maintains the State's common cash pool, which is used by most State funds for short-term investment and to provide centralized control over disbursements. The total amount of pooled cash, which is primarily invested in prime commercial paper, amounted to $2.0 billion at September 30, 1988.

The State's cash flow requirements are greatest in the earlier part of the fiscal year and short-term notes have, in the past, been issued to provide additional financing. For the second year in a row, however, short-term borrowings were not needed. This improved cash position is largely the result of funding GAAP departures which existed in prior years.

The State's level of general obligation debt continued to decrease, falling from $573.5 million as of September 30, 1976 to the $129.5 million currently outstanding. In the November 1988 general election, the voters approved a proposed $800 million in additional general obligation bonding for environmental and recreational programs. The proceeds will be used for waste management and toxic waste clean-up and for financing State park improvements.

Revenue dedicated bonded debt, which is primarily transportation related, decreased by $6.9 million to $405.3 million during 1987-88. The only new bond issues during the year were bonds issued to advance refund or defease prior bonds. The refunding of higher interest bonds with lower interest bonds will result in future debt service savings of $4.6 million.

Michigan Municipal Bond Authority

Created during the 1985-86 fiscal year, the Michigan Municipal Bond Authority assists hundreds of local units of government and school districts by reducing their short-term and long-term borrowing costs. The authority pools the borrowing needs of various local units, resulting in significant savings to them. New activities of the Authority include a pooled financing mechanism to lower the financing costs of major equipment purchases and a planned short-term investment pool. Short-term financing (notes) of $243.9 million and long-term financing (bonds) of $1,068.6 million were issued during the fiscal year; loans outstanding to local units at September 30, 1988 total $526.5 million.

Proprietary Funds

State control of the wholesale distribution of alcoholic beverages through the Liquor Purchase Revolving Fund resulted in net income of $64.6 million which, pursuant to statute, was transferred to the General Fund. Liquor sales and profits are on a downward trend which is expected to continue as a result of decreasing consumption.

The State Sponsored Group Insurance Fund, which accounts for the State's self insurance for employee benefit programs, maintains its strong financial position. Significant rate reductions were implemented in 1987-88 in order to return savings accumulated in prior years to the various operating funds as well as restricted financing sources. Additional rate reductions are in place for the 1988-89 year, as it is felt that funds held in the Fund can be reduced without affecting the ability of the Fund to meet its obligations.

Overall State Lottery Fund ticket sales grew 19.4% from the prior year as gross revenues grew to $1,248.4 million. This resulted in net income from lottery operations (after prizes and other costs) increasing $81.4 million to $488.4 million, all of which was transferred to the School Aid Fund. This growth is primarily attributable to an increase in lotto game sales, which increased 38.2% to $538.6 million. Lotto revenues fluctuate in response to the number of jackpot rollovers. The 1986-87 year had relatively few roll-overs and the 1987-88 year had several. Assuming a more normal distribution of rollovers in 1988-89, a decrease in revenues is predicted for next year.

Pension Plans

The State Constitution requires the State to provide current funding of plan benefits and statutes provide for the amortization of unfunded prior service costs. In four of the six plans, the statutes contain an additional safeguard whereby a shortfall in the legally required contributions will be corrected in the second succeeding fiscal year. As a result of these measures, the State's pension systems remain relatively strong and the amount of unfunded obligations is minimized.

The net assets (for valuation purposes) of State pension funds increased by $1.2 billion to $16.3 billion at September 30, 1988. The latest actuarial valuation of the two largest funds, the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS), were prepared as of September 30, 1988. The PSERS had net assets (for valuation purposes) of $12,083.7 million versus a pension obligation of $14,679.1 million at September 30, 1988. The SERS had net assets (for valuation purposes) of $3,662.7 million versus a pension obligation of $3,386.8 million at September 30, 1988. Contributions to the PSERS and SERS were sufficient during 1987-88 to cover the current service as well as to amortize prior service costs under generally accepted accounting principles.

Financial Highlights – Component Units

Governmental Types

The State Building Authority, which is reflected in the special revenue, capital projects, and debt service fund types, has financed several major university and State building projects. Bonds outstanding total $906.9 million, with $222.1 million currently available in debt service funds for debt redemption. One of the most recently completed projects is the new State Library/Museum, which gives our State a truly unique combined cultural and historical complex. The authority is also financing several new correctional facilities as well as projects to benefit institutions of higher education. Future plans include the financing of major equipment purchases.

The Michigan Unemployment Compensation Fund (MUCF) ended the year with a fund balance of $334.1 million, an increase of $93.9 million. Revenues during the year decreased 5.8% to $1,163.4 million and expenditures increased 12.2% to $1,069.5 million.

The Michigan Education Trust (MET) is a new program which is designed to guarantee future tuition at State public colleges and universities. The MET was offering its first open enrollment period just as the fiscal year was ending. By the November 30, 1988 deadline, over 40,000 children had been enrolled and MET had received over $250 million.

Proprietary Types

The largest proprietary type component units are the Michigan State Housing Development and Hospital Finance Authorities. These authorities, which help finance various housing and hospital financing activities, have bonds and notes payable of $1,840.3 million and $2,364.2 million outstanding, respectively. The Michigan Strategic Fund is also reported in this fund type. It is implementing several new programs to stimulate business and job growth and has become a major force in these areas.

Audit

The principal auditor of the State's reporting entity is the legislative Office of the Auditor General. Their examination was conducted in accordance with generally accepted auditing standards (GAAS), and their opinion precedes the General Purpose Financial Statements. The accounting firm of Deloitte Haskins & Sells has reviewed the General Purpose Financial Statements in accordance with standards established by the American Institute of Certified Public Accountants and their review letter also precedes these statements.

In addition to the annual audit of the State's General Purpose Financial Statements, the Office of the Auditor General performs periodic financial and expanded scope audits of the various State agencies. Outside accounting firms are also frequently used, particularly for the audits of separately issued component unit financial statements, such as those for the major financing authorities and the Michigan Unemployment Compensation Fund. The Auditor General, as the State's principal auditor, also has primary responsibility for federal Single Audit Act coverage and this work is generally reported at the department or authority level.

Conclusion

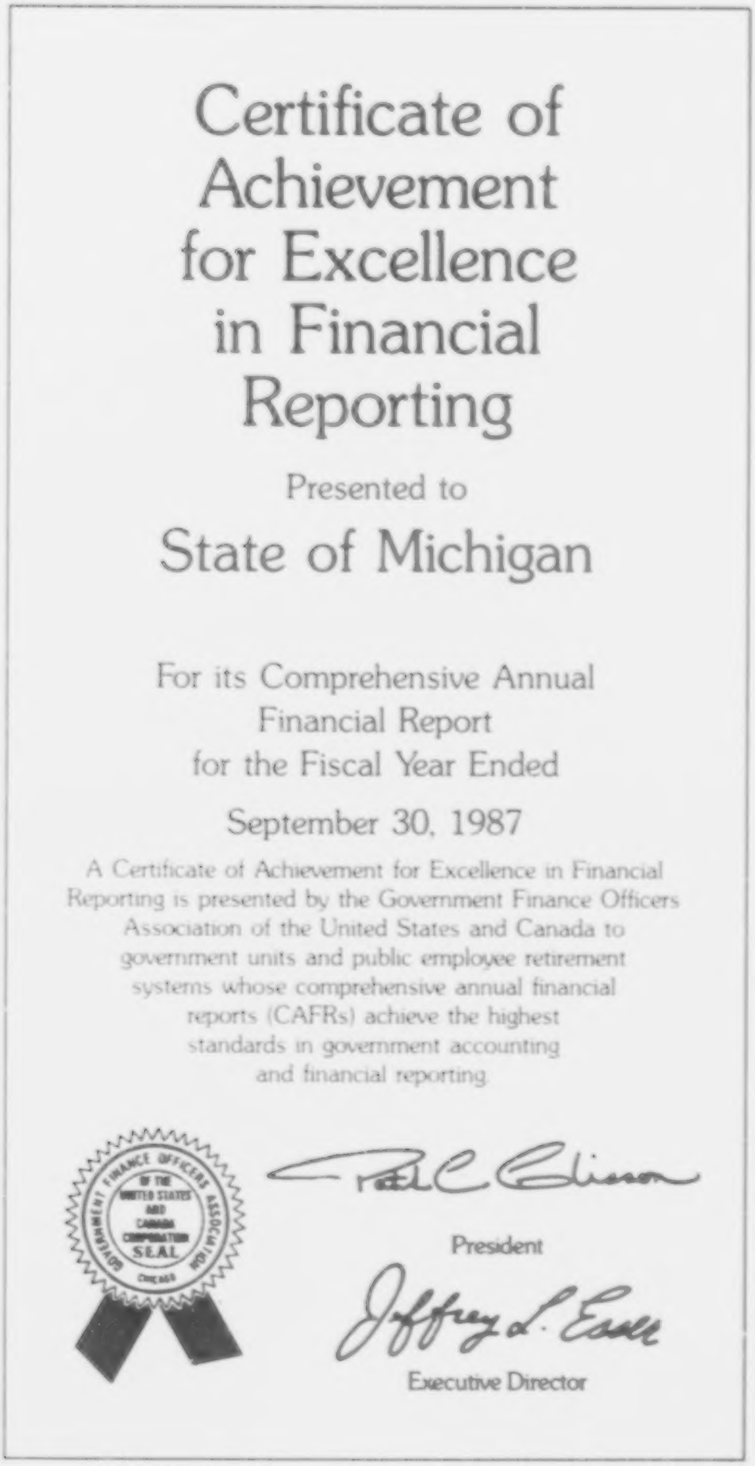
I wish to express my appreciation to the many people whose dedicated efforts made possible the preparation of this report. I believe their combined efforts have produced a report that will enable government decision makers and concerned citizens to better understand and evaluate the State's financial condition.

Very truly yours,

Shelby Solomon

Shelby P. Solomon
Director

March 15, 1989



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 1987

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Pat C Glisson

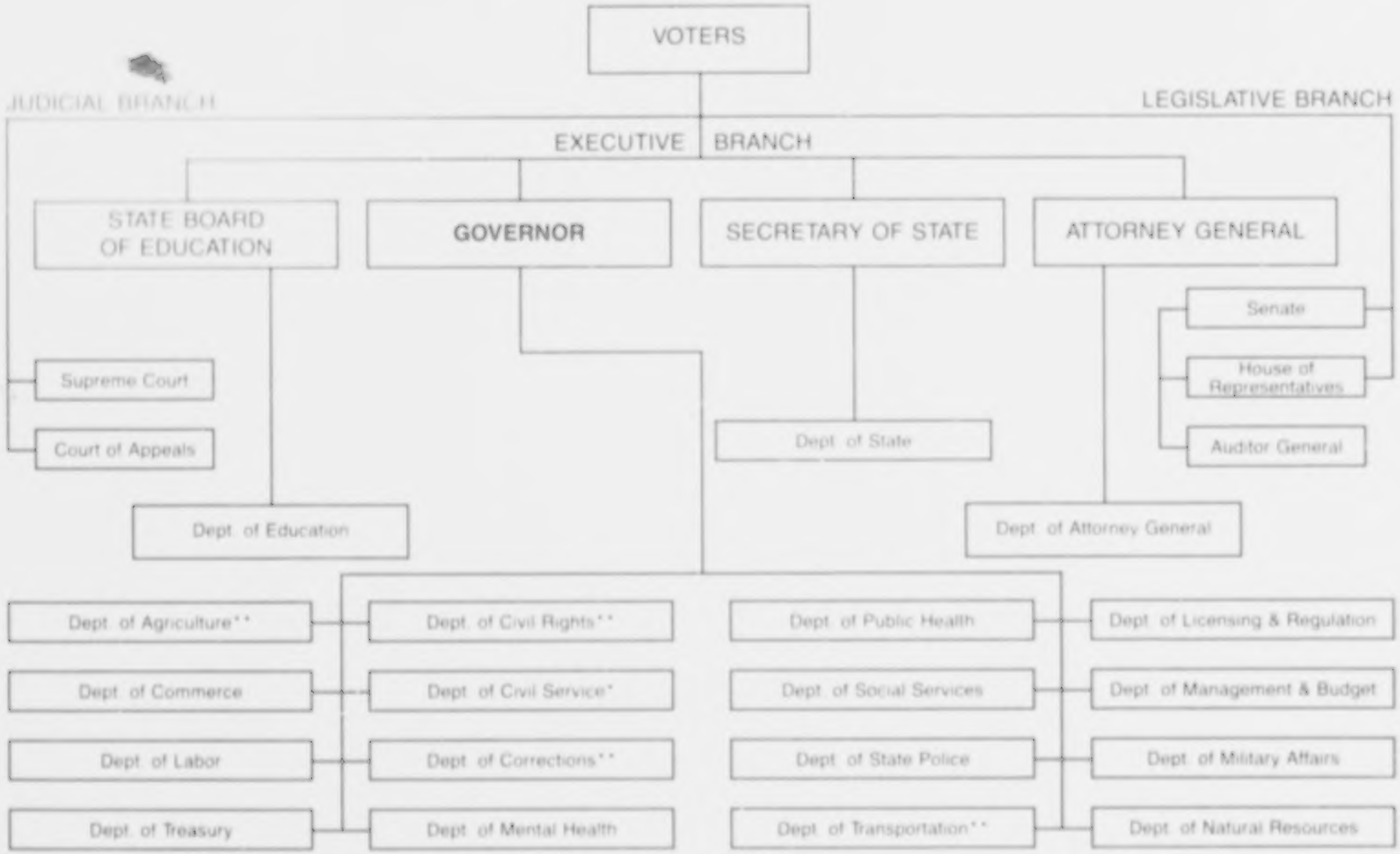
President

Jeffrey L. Esser

Executive Director

STATE OF MICHIGAN

Organizational Structure


VOTERS
JUDICIAL BRANCH
LEGISLATIVE BRANCH
EXECUTIVE BRANCH
STATE BOARD OF EDUCATION
GOVERNOR
SECRETARY OF STATE
ATTORNEY GENERAL
Senate
House of Representatives
Auditor General
Supreme Court
Court of Appeals
Dept. of State
Dept. of Education
Dept. of Attorney General
Dept. of Agriculture**
Dept. of Civil Rights**
Dept. of Public Health
Dept. of Licensing & Regulation
Dept. of Commerce
Dept. of Civil Service*
Dept. of Social Services
Dept. of Management & Budget
Dept. of Labor
Dept. of Corrections**
Dept. of State Police
Dept. of Military Affairs
Dept. of Treasury
Dept. of Mental Health
Dept. of Transportation**
Dept. of Natural Resources

*Have Commission appointed by Governor

**Have Commission appointed by Governor, confirmed by Senate

STATE OF MICHIGAN

PRINCIPAL STATE OFFICIALS

JUDICIAL BRANCH

Supreme Court Justices
Honorable Dorothy Comstock Riley, Chief Justice
Honorable Charles L. Levin, Associate Justice
Honorable James H. Brickley, Associate Justice
Honorable Michael F. Cavanagh, Associate Justice
Honorable Patricia J. Boyle, Associate Justice
Honorable Dennis W. Archer, Associate Justice
Honorable Robert P. Griffin, Associate Justice

LEGISLATIVE BRANCH

Honorable Martha W. Griffiths
President of the Senate

Honorable Lewis N. Dodak
Speaker of the House of Representatives

Charles S. Jones
Acting Legislative Auditor General

EXECUTIVE BRANCH

Honorable James J. Blanchard, Governor

Honorable Frank J. Kelley, Attorney General

Honorable Richard H. Austin, Secretary of State

State Board of Education
  Honorable James J. Blanchard (Ex Officio)
  Honorable Dorothy Beardmore
  Honorable Barbara Dumouchelle
  Honorable Rollie Hopgood
  Honorable Cherry H. Jacobus
  Honorable Marilyn F. Lundy
  Honorable Barbara Roberts Mason
  Honorable Annetta Miller
  Honorable Gumecindo Salas
Donald L. Bemis, Superintendent of Public Instruction

Michigan Commission of Agriculture
  Elwood Kirkpatrick
  Vernon L. Kretzschmer
  George A. McManus, Jr.
  Rita M. Reid
  S. Leon Whitney
Paul E. Kindinger, Director, Department of Agriculture

Civil Rights Commission
  Sondra Lynn Berlin
  Beverly Clark
  Eva Evans
  Dorothy Haener
  Michael C. Hidalgo
  Rev. William Holly
  Benny N. Napoleon
  Philip Van Dam
John Roy Castillo, Director, Dept. of Civil Rights

Civil Service Commission
  Laurence B. Deitch
  Walter R. Greene
  Alan A. May
  Patricia B. Johnson
Martha Bibbs, Director, Dept. of Civil Service

Doug Ross, Director, Department of Commerce

Corrections Commission
  Robert S. Axford
  Thomas K. Eardley, Jr.
  James H. Lincoln
  Conrad Mallett, Jr.
  Duane L. Waters
Robert Brown, Jr., Director, Department of Corrections

Elizabeth P Howe, Director, Department of Labor

Raymond W. Hood, Sr., Director, Department of Licensing and Regulation

Shelby F. Solomon, Director, Department of Management and Budget

Thomas D. Watkins, Jr., Director, Department of Mental Health

Major Gen. Vernon J. Andrews, Director, Department of Military Affairs

Natural Resources Commission
  Thomas J. Anderson
  Marlene J. Fluharty
  Gordon E. Guyer
  Kerry Kammer
  O. Stewart Myers
  Ellwood A. Mattson
  Raymond Poupore
David F. Hales, Director, Department of Natural Resources

Raj M Wiener, Acting Director, Department of Public Health

C. Patrick Babcock, Director, Department of Social Services

Col. Ritchie T. Davis, Director, Department of State Police

Transportation Commission
  Stephen F. Adamini
  William C. Marshall
  Hannes Meyers, Jr.
  Nansi Irene Rowe
  Rodger D. Young
  Shirley E. Zeller
James P. Pitz, Director, Dept. of Transportation

Robert A. Bowman, State Treasurer

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CHARLES S. JONES, C.P.A.
ACTING AUDITOR GENERAL

Independent Auditor's Report

The Honorable James J. Blanchard, Governor
Members of the Legislature

March 15, 1989

We have audited the general purpose financial statements of the State of Michigan, principally as of September 30, 1988 and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units and the State Lottery Fund which are more fully described in Notes 1 and 25. Those financial statements reflect total assets and revenues constituting 4.2% and 0.4% of the assets and revenues, respectively, of the special revenue funds; 64% and 79% of the assets and revenues, respectively, of the debt service funds; 99% and 99% of the assets and revenues, respectively, of the capital projects funds; 98% and 80% of the assets and operating revenues, respectively, of the enterprise funds; 41% and 73% of the assets and revenues, respectively, of the expendable trust funds; and 43% of the liabilities of the General Long-Term Obligations Account Group. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these units, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Michigan principally as of September 30, 1988 and the results of its operations and the changes in financial position of the proprietary fund types and pension related trust funds for the year then ended in conformity with generally accepted accounting principles.

As described in Note 4, the State changed its method of accounting to report: capital contributions as a separate element of fund equity in its proprietary type funds; assets for loans made to local school districts by the School Bond Loan Redemption Fund; and expenditures, and a liability to the General Fund, for disbursements made in anticipation of future State Building Authority bonding.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Michigan. This information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

The introductory and statistical sections listed in the table of contents were not audited by us and, accordingly, we express no opinion on them.

Sincerely,

Charles S. Jones

Charles S. Jones, C.P.A.
Acting Auditor General

Deloitte
Haskins Sells

Suite 3100
100 Renaissance Center
Detroit, Michigan 48243-1167

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Mr. Charles S. Jones, C.P.A.
Acting Auditor General
State of Michigan
Lansing, Michigan

March 15, 1989

We have reviewed the general purpose financial statements of the State of Michigan principally as of September 30, 1988 and for the year then ended, listed in the foregoing table of contents, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the State of Michigan Department of Management and Budget.

A review consists principally of inquiries of State personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Our review was made for the purpose of expressing the limited assurance described in the preceding paragraph concerning the financial statements taken as a whole. Our review also comprehended the supplemental financial data listed in the foregoing table of contents which is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Based on our review, we are not aware of any material modifications that should be made to the supplemental financial data in order for such data, when considered in relation to the general purpose financial statements, to be in conformity with generally accepted accounting principles. The introductory and statistical data listed in the foregoing table of contents was not reviewed by us; accordingly, we do not express an opinion or any other form of assurance on it.

Yours truly,

Deloitte Haskins + Sells

STATE OF MICHIGAN
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 1988
(In Thousands)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 5,378	$ 1,240	$ 1,396	$ 397
Equity in Common Cash (Note 5)	563,519	983,481	3,973	103
Taxes, interest, and penalties receivable (Note 6)	1,070,716	204,070	-	-
Amounts due from other funds (Note 20)	73,536	60,743	2,009	79
Amounts due from federal agencies	382,334	81,896	-	-
Amounts due from local units	159,344	23,470	-	-
Inventories	24,831	11,586	-	-
Investments (Note 9)	-	57,148	147,710	60,608
Other current assets	125,392	22,993	4,096	45
Total Current Assets	2,405,053	1,446,631	159,186	61,234
Taxes, interest, and penalties receivable (Note 6)	35,776	4,069	-	-
Advances to other funds (Note 20)	5,689	4,953	-	-
Amounts due from federal agencies	34,045	-	-	-
Amounts due from local units	18,188	118,684	121,134	-
Mortgages and loans receivable (Note 10)	-	-	-	-
Investments (Note 9)	-	34,046	70,357	-
Property, plant and equipment (Note 11)	-	-	-	-
Other noncurrent assets	14,126	8,624	-	-
Amount available for retirement of bonds	-	-	-	-
Amount to be provided for bond retirement	-	-	-	-
Amounts to be provided for other long-term obligations (Note 15)	-	-	-	-
Total Assets	$ 2,512,880	$ 1,617,009	$ 350,677	$ 61,234
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Liability to Common Cash (Note 5)	$ -	$ 137,125	$ -	$ -
Warrants outstanding	139,989	12,451	-	-
Accounts payable and other liabilities	889,601	260,480	-	21,589
Income tax refunds payable (Note 7)	706,433	-	-	-
Amounts due to other funds (Note 20)	33,557	50,265	-	62,210
Bonds and notes payable (Note 18)	-	-	-	-
Interest payable	-	-	-	-
Deferred revenue	11,776	12,393	-	-
Escrow funds	-	-	-	-
Total Current Liabilities	1,781,358	472,716	-	83,799
Long-Term Liabilities:				
Advances from other funds (Note 20)	3,000	-	-	-
Advances from federal agencies (Note 17)	-	-	-	-
Prize awards payable (Note 18)	-	-	-	-
Deferred revenue	56,200	12,783	46,693	-
Bonds and notes payable (Notes 15 and 18)	-	-	-	-
Other long-term liabilities (Notes 15 and 19)	-	-	-	-
Total Liabilities	1,840,558	485,499	46,693	83,799
Fund Equity:				
Investment in general fixed assets	-	-	-	-
Contributed capital (Note 22)	-	-	-	-
Reserved retained earnings (Note 23)	-	-	-	-
Unreserved retained earnings (Note 23)	-	-	-	-
Reserved fund balance (Note 24)	650,807	548,281	74,833	40,096
Unreserved fund balance (Note 24)	21,513	583,227	229,150	(62,660)
Total Fund Equity	672,321	1,131,509	303,983	(22,564)
Total Liabilities and Fund Equity	$ 2,512,880	$ 1,617,009	$ 350,677	$ 61,234

The accompanying notes are an integral part of the financial statements.

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	TOTALS (MEMORANDUM ONLY)
$ 10,357	$ 1,003	$ 5,317	$ –	$ –	$ 25,090
84,500	75,010	476,252	–	–	2,186,841
–	–	144,506	–	–	1,419,293
1,446	1,775	13,731	–	–	153,322
8,291	21	14,766	–	–	487,310
–	417	60,176	–	–	243,408
53,478	15,177	–	–	–	105,075
643,327	–	3,360,855	–	–	4,269,650
127,820	1,426	205,669	–	–	487,444
929,222	94,833	4,281,276	–	–	9,377,437
–	–	–	–	–	39,845
–	17,450	–	–	–	28,092
–	–	–	–	–	34,045
–	–	1,010	–	–	259,017
2,906,752	–	–	–	–	2,906,752
1,679,126	–	14,732,989	–	–	16,516,519
30,212	87,835	–	1,914,983	–	2,033,030
7,625	52,405	290,060	–	–	372,842
–	–	–	–	229,150	229,150
–	–	–	–	1,212,675	1,212,675
–	–	–	–	708,484	708,484
$ 5,552,939	$ 252,524	$19,305,336	$ 1,914,983	$ 2,150,310	$33,717,894
$ 3,557	$ 11,152	$ 2,726	$ –	$ –	$ 154,561
1,422	1,255	18,499	–	–	173,619
141,173	60,390	270,379	–	–	1,643,614
–	–	–	–	–	706,433
2,029	210	5,798	–	–	154,070
124,653	–	–	–	–	124,653
109,718	–	–	–	–	109,718
24,765	41,411	11,241	–	–	101,588
158,438	–	–	–	–	158,438
565,759	114,419	308,645	–	–	3,326,698
–	22,876	2,216	–	–	28,092
–	–	781,539	–	–	781,539
389,324	–	–	–	–	389,324
518	487	–	–	–	116,683
4,203,848	–	–	–	1,441,825	5,645,673
11,515	35,628	1,011,342	–	708,484	1,766,971
5,170,966	173,412	2,103,742	–	2,150,310	12,054,984
–	–	–	1,914,983	–	1,914,983
3,886	9,818	–	–	–	13,705
240,962	–	–	–	–	240,962
137,123	69,293	–	–	–	206,417
–	–	15,044,580	–	–	16,358,600
–	–	2,157,012	–	–	2,928,242
381,972	79,111	17,201,593	1,914,983	–	21,662,910
$ 5,552,939	$ 252,524	$19,305,336	$ 1,914,983	$ 2,150,310	$33,717,894

STATE OF MICHIGAN

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE
REVENUES			
Taxes	$ 7,597,564	$ 2,687,974	$ -
From federal agencies	3,216,117	498,608	-
From local agencies	121,713	30,098	-
From services	102,677	952	-
From licenses and permits	111,861	113,011	5,900
Miscellaneous	232,032	154,107	21,019
Total Revenues	11,381,967	3,484,753	26,919
EXPENDITURES			
Current:			
General government	747,519	10,747	158
Education	1,814,063	2,805,022	-
Health and welfare	4,784,690	-	-
Public safety and corrections	774,301	-	-
Conservation, recreation, and agriculture	282,667	8,914	-
Labor, commerce, and regulatory	479,576	117,126	-
Mental health	1,100,307	-	-
Transportation	-	963,514	-
Items not assigned to a function	2	-	-
Capital outlay	90,107	481,465	-
Intergovernmental - revenue sharing	929,574	-	-
Debt service:			
Bond principal retirement	-	-	78,889
Bond interest and fiscal charges	-	-	92,527
Capital lease payments (Note 16)	31,505	3,677	-
Total Expenditures	11,034,316	4,390,470	171,575
Excess of Revenues over (under) Expenditures	347,651	(905,716)	(144,655)
OTHER FINANCING SOURCES (USES)			
Proceeds from bond and bond anticipation note issues	-	77,516	-
Proceeds from refunding bond issue	-	-	104,376
Payment to refunded bond escrow agent	-	-	(104,174)
Capital lease acquisitions	26,472	18	-
Operating transfers in	312,225	1,607,017	176,497
Operating transfers out	(742,223)	(743,390)	(4,607)
Settlement from local unit (Note 8)	33,995	-	-
Total Other Financing Sources (Uses)	(369,528)	941,160	172,092
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(21,877)	35,443	27,436
Fund Balances - Beginning of fiscal year - as previously reported	694,518	1,096,601	201,207
Effect of accounting changes (Note 4)	-	-	75,339
Fund Balances - Beginning of fiscal year - restated	694,518	1,096,601	276,547
Equity transfers to other funds (Note 22)	(319)	(536)	-
Fund Balances - End of fiscal year	$ 672,321	$ 1,131,509	$ 303,983

The accompanying notes are an integral part of the financial statements.

GOVERNMENTAL FUND TYPE	FIDUCIARY FUND TYPES	
CAPITAL PROJECTS	EXPENDABLE TRUST	TOTALS (MEMORANDUM ONLY)
$ -	$ 1,061,806	$11,347,345
5	134,734	3,849,466
-	18,331	170,143
-	-	103,629
-	-	230,773
1,333	369,104	777,597
1,339	1,583,977	16,478,956
-	88,540	846,966
-	12	4,619,098
-	627	4,785,317
-	-	774,301
24	124	291,731
-	1,114,432	1,711,135
-	6,022	1,106,330
-	98,013	1,061,528
-	-	2
90,496	-	662,069
-	-	929,574
-	-	78,889
-	-	92,527
-	-	35,183
90,520	1,307,773	16,994,655
(89,181)	276,203	(515,699)
82,402	-	159,918
-	-	104,376
-	-	(104,174)
-	-	26,490
-	4,068	2,099,808
(21,757)	(53,846)	(1,565,824)
-	-	33,995
60,645	(49,777)	754,592
(28,536)	226,426	238,892
5,971	1,930,586	3,928,886
-	-	75,339
5,971	1,930,586	4,004,225
-	-	(855)
$ (22,564)	$ 2,157,012	$ 4,242,262

STATE OF MICHIGAN

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	GENERAL FUND		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	$ 7,525,000	$ 7,597,564	$ 72,564
From federal agencies	3,365,800	3,216,117	(149,682)
From local agencies	117,200	121,713	4,513
From services	87,500	102,677	15,177
From licenses and permits	87,600	111,861	24,261
Miscellaneous	234,200	232,032	(2,167)
Operating transfers in	609,900	312,225	(297,674)
Settlement from local unit	49,400	33,995	(15,404)
Total Revenues and Other Sources	12,076,600	11,728,188	(348,411)
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES – BY DEPARTMENT			
Legislative	109,230	106,736	2,493
Judicial	131,548	131,350	198
Executive	4,049	3,799	250
Management and Budget	1,208,415	1,200,333	8,082
Attorney General	29,630	28,222	1,408
Civil Rights	12,683	12,280	403
Civil Service	17,444	17,051	392
State	105,053	102,996	2,056
Treasury	230,796	222,819	7,976
Education	1,154,911	1,153,263	1,648
Grants to Colleges and Universities	1,266,511	1,266,460	51
Public Health	315,151	314,120	1,031
Mental Health	1,082,122	1,117,871	(35,748)
Social Services	4,433,848	4,498,988	(65,139)
Corrections	615,693	614,502	1,190
Military Affairs	26,339	25,737	601
State Police	192,425	191,158	1,267
Transportation	100	100	-
Commerce	207,461	205,534	1,927
Labor	298,063	281,486	16,576
Licensing and Regulation	23,762	22,974	787
Natural Resources	270,835	255,710	15,125
Agriculture	65,865	56,539	9,326
Items Not Assigned to Departments	-	2	(2)
Total Expenditures, Operating Transfers Out, and Encumbrances	11,801,945	11,830,040	(28,094)
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ 274,654	(101,851)	$ (376,505)
Reconciling Items (Note 3):			
Encumbrances at September 30		79,973	
Funds not annually budgeted		-	
Net Reconciling Items		79,973	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		(21,877)	
FUND BALANCES (GAAP BASIS)			
Beginning balances		694,518	
Equity transfers to other funds		(319)	
Ending balances (GAAP Basis)		$ 672,321	

The accompanying notes are an integral part of the financial statements.

SPECIAL REVENUE FUNDS			TOTALS (MEMORANDUM ONLY)		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ 2,634,800	$ 2,687,974	$ 53,174	$10,159,800	$10,285,539	$ 125,739
477,800	498,608	20,808	3,843,600	3,714,726	(128,873)
15,700	29,998	14,298	132,900	151,711	18,811
1,600	888	(711)	89,100	103,565	14,465
85,200	104,628	19,428	172,800	216,490	43,690
127,500	138,867	11,367	361,700	370,900	9,200
1,541,600	1,606,768	65,168	2,151,500	1,918,994	(232,505)
-	-	-	49,400	33,995	(15,404)
4,884,200	5,067,735	183,535	16,960,800	16,795,924	(164,875)
-	-	-	109,230	106,736	2,493
-	-	-	131,548	131,350	198
-	-	-	4,049	3,799	250
38,070	36,042	2,027	1,246,485	1,236,375	10,110
-	-	-	29,630	28,222	1,408
-	-	-	12,683	12,280	403
-	-	-	17,444	17,051	392
1,022	390	631	106,075	103,387	2,688
-	-	-	230,796	222,819	7,976
2,726,873	2,729,340	(2,466)	3,881,784	3,882,603	(818)
-	-	-	1,266,511	1,266,460	51
-	-	-	315,151	314,120	1,031
-	-	-	1,082,122	1,117,871	(35,748)
-	-	-	4,433,848	4,498,988	(65,139)
-	-	-	615,693	614,502	1,190
-	-	-	26,339	25,737	601
-	-	-	192,425	191,158	1,267
2,143,878	2,080,293	63,585	2,143,978	2,080,393	63,585
-	-	-	207,461	205,534	1,927
132,605	132,250	355	430,668	413,736	16,932
-	-	-	23,762	22,974	787
103,436	98,692	4,744	374,272	354,402	19,869
-	-	-	65,865	56,539	9,326
-	-	-	-	2	(2)
5,145,886	5,077,008	68,877	16,947,832	16,907,049	40,783
$ (261,686)	(9,273)	$ 252,412	$ 12,967	(111,125)	$ (124,092)
	57,266			137,240	
	(12,549)			(12,549)	
	44,717			124,691	
	35,443			13,566	
	1,096,601			1,791,120	
	(536)			(855)	
	$ 1,131,509			$ 1,803,830	

STATE OF MICHIGAN
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS AND FUND BALANCES
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	
	ENTERPRISE	INTERNAL SERVICE	PENSION TRUST FUNDS	TOTALS (MEMORANDUM ONLY)
OPERATING REVENUES:				
Operating revenues	$ 1,654,431	$ 392,115	$ –	$ 2,046,546
Contributions from members and employers (Note 12)	–	–	964,274	964,274
Interest income	276,291	–	–	276,291
Investment revenue (net)	173,098	–	1,146,206	1,319,305
Miscellaneous	41,985	–	6,480	48,465
Total Operating Revenues	2,145,806	392,115	2,116,961	4,654,883
OPERATING EXPENSES:				
Salaries, wages, and other administrative	202,627	55,238	7,610	265,476
Interest expense	379,938	778	–	380,717
Depreciation	6,743	16,012	–	22,755
Purchases for resale	326,048	21,150	–	347,199
Purchases for prison industries	–	7,969	–	7,969
Lottery prize awards	587,091	–	–	587,091
Payment of premiums and claims	–	281,474	–	281,474
Benefits, insurance, and refunds	–	–	825,383	825,383
Other operating expenses	83,019	–	–	83,019
Total Operating Expenses	1,585,470	382,623	832,994	2,801,088
Operating Income (Loss)	560,336	9,491	1,283,966	1,853,794
NONOPERATING REVENUES (EXPENSES):				
Interest revenue (expense)	(461)	–	–	(461)
Specific tax on spirits	7,180	–	–	7,180
Gain (loss) on disposal of assets	(2)	(215)	–	(218)
Federal grant revenue	25,409	–	–	25,409
Grant expense	(36,884)	–	–	(36,884)
Development stage expenses	(1,208)	–	–	(1,208)
Other nonoperating revenues (expenses)	(16,855)	218	–	(16,637)
Total Nonoperating Revenues (Expenses)	(22,824)	3	–	(22,820)
Income (Loss) Before Operating Transfers	537,512	9,494	1,283,966	1,830,974
OPERATING TRANSFERS:				
Operating transfers in	26,268	55	141	26,465
Operating transfers out	(553,851)	(2,429)	(4,168)	(560,449)
Total Operating Transfers In (Out)	(527,582)	(2,374)	(4,027)	(533,984)
Net Income (Loss)	9,929	7,120	1,279,939	1,296,989
Retained Earnings and Fund Balances – Beginning of fiscal year – as previously reported	371,187	71,990	13,764,640	14,207,819
Effect of accounting change (Note 4)	(3,030)	(9,818)	–	(12,849)
Retained Earnings and Fund Balances – Beginning of fiscal year – restated	368,156	62,172	13,764,640	14,194,970
Retained Earnings and Fund Balances – End of fiscal year	$ 378,086	$ 69,293	$15,044,580	$15,491,959

The accompanying notes are an integral part of the financial statements.

STATE OF MICHIGAN
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	
	ENTERPRISE	INTERNAL SERVICE	PENSION TRUST FUNDS	TOTALS (MEMORANDUM ONLY)
SOURCES OF FUNDS:				
From operations:				
Net income (loss)	$ 9,929	$ 7,120	$ 1,279,939	$ 1,296,989
Items not requiring (providing) working capital:				
Depreciation	6,743	16,012	-	22,755
Compensated absences - long-term portion	(174)	405	-	230
Change in long-term prize awards	110,291	-	-	110,291
Disability claims - long-term portion	-	535	-	535
Provision for losses on loans	5,628	-	-	5,628
Amortization of deferred items (net)	17,583	(115)	-	17,468
Loss (gain) on disposal of fixed assets	2	215	-	218
Working Capital Provided (Used) from Operations	150,005	24,173	1,279,939	1,454,118
From other sources:				
Proceeds from bonds and notes sold	161,317	-	-	161,317
Principal repayments on loans	151,528	-	-	151,528
Increase in long-term deferred revenues	114	-	-	114
Sale of fixed assets	-	3,089	-	3,089
Decrease in noncurrent investments (net)	251,976	-	-	251,976
Increase in long-term lease obligations	(182)	67	-	(115)
Increase in advances and other long-term liabilities	3,690	17,872	-	21,563
Contributed capital additions	855	-	-	855
Total Sources (Uses) of Funds	$ 719,304	$ 45,203	$ 1,279,939	$ 2,044,448
APPLICATION OF FUNDS:				
Increase in advances to other funds	$ -	$ 17,450	$ -	$ 17,450
Increase in noncurrent investments (net)	128,764	-	1,233,887	1,362,652
New loans issued	196,597	-	-	196,597
Decrease in long-term bonds and notes payable	186,899	-	-	186,899
Decrease in long-term prize awards payable	31,699	-	-	31,699
Increase in other noncurrent assets	3,743	5,497	-	9,240
Additions to fixed assets	1,991	31,226	-	33,218
Decrease in long-term deferred revenues	76	-	-	76
Reduction in long-term lease obligations	24	1,707	-	1,731
Decrease in other long-term liabilities	31	-	-	31
Net increase (decrease) in working capital	169,476	(10,677)	46,052	204,851
Total Application of Funds	$ 719,304	$ 45,203	$ 1,279,939	$ 2,044,448
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:				
Cash and cash equivalents	$ (2,676)	$ (2)	$ (5)	$ (2,684)
Equity in/Liability to Common Cash	11,548	(41,964)	41,600	11,184
Amounts due from other funds	159	(42)	(7,023)	(6,906)
Amounts due from federal agencies	1,843	6	-	1,850
Amounts due from local units	-	252	10,637	10,889
Inventories	16	1,500	-	1,516
Investments	176,554	-	(287,352)	(110,798)
Other current assets	6,395	(685)	(88,848)	(83,138)
Warrants outstanding	4,521	(53)	2,129	6,597
Accounts payable and other liabilities	(26,111)	6,152	374,915	354,956
Amounts due to other funds	(1,256)	(30)	-	(1,286)
Bonds and notes payable - current	23,683	-	-	23,683
Interest payable	1,854	-	-	1,854
Deferred revenue	(5,803)	24,190	-	18,387
Escrow funds	(21,254)	-	-	(21,254)
Net Increase (Decrease) in Working Capital	$ 169,476	$ (10,677)	$ 46,052	$ 204,851

The accompanying notes are an integral part of the financial statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the State conform in all material respects to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

The Governmental Accounting Standards Board (GASB) establishes the criteria used in determining which organizations should be included in these financial statements. The GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, requires the inclusion of the financial transactions of all government organizations for which the State has the ability to exercise significant oversight responsibility.

The extent of oversight responsibility is based upon several criteria including: selection of governing authority, designation of management, the ability of the State to significantly influence operations, financial interdependency and accountability for fiscal matters including the level of State financing and/or moral or legal responsibility for the long-term debt of the organizations. Based upon this criteria, this report includes information on several component unit organizations that are not accounted for in the State's central accounting system. These organizations are:

State Building Authority
Michigan Higher Education Facilities Authority
Michigan Family Farm Development Authority
Mackinac Bridge Authority
Michigan Unemployment Compensation Fund
Michigan Education Trust
Michigan State Hospital Finance Authority
Michigan Higher Education Student Loan Authority
Michigan Higher Education Assistance Authority
Mackinac Island State Park Commission
Michigan Strategic Fund
Michigan State Housing Development Authority

In addition to the component units listed above, there are certain organizations with varying degrees of autonomy which are not separate funds but which are recorded in accounts within a State fund, usually the General Fund. Among these organizations are: the Michigan Municipal Bond Authority, which is described more fully in Note #15; the Michigan Export Development Authority within the Department of Agriculture; the Automobile Theft Prevention Authority within the Department of State Police; and, various elements of the State court system.

The court system components which are considered part of the State entity include: the Michigan Supreme Court, the Michigan Court of Appeals, the Court of Claims, the 36th District Court, and the Wayne County Circuit Court. The financial transactions of these courts are included in the General Fund. Other circuit courts, district courts, and probate courts are considered local units of government activities and have been excluded from these statements.

As more fully described in the following paragraphs, certain organizations were evaluated for possible inclusion as component units, but it was determined that they should not be considered part of the State reporting entity because they do not meet the criteria for inclusion.

The Michigan State Accident Fund (MSAF), which provides workers' compensation insurance coverage for both public and private employers, has (except for certain investment activity) been excluded from this report. The MSAF does not meet the criteria for inclusion because the State has been prevented from exercising oversight pending the outcome of litigation. The MSAF has entered into legal proceedings challenging State attempts to exercise oversight responsibility over its operations.

The State currently acts as a depository for a portion of the investments of the MSAF. This portion is accounted for within the State accounting system and is reported as an expendable trust fund titled the "Michigan State Accident Fund."

Note 1 continued on next page.

Public institutions of higher education have been excluded from these statements. Community colleges are excluded because they are local units of government. Other public institutions have been excluded based upon an application of the manifestations of oversight criteria of the GASB. By State Constitution, law, and practice the institutions have been made autonomous and the degree of State oversight is so remote that it is deemed most appropriate not to reflect them as part of the entity.

The following summarizes the evaluation of the manifestations of oversight for the institutions of higher education: (a) the three largest institutions' governing boards are selected by the electorate and State officials do not maintain significant continuing relationships with the other institutions' boards; (b) the institutions' employees are not part of the State's classified civil service; (c) management is not appointed by the State; (d) the State does not establish or control the budgets; (e) the State is not responsible for debts or deficits; (f) assets are held in the name of the institutions; (g) each institution maintains its own accounting records, investments, and bank accounts; (h) each issues its own financial statements which are audited by outside accounting firms selected by the institution; (i) the institutions have significant non-state revenues.

The State grants to the institutions are generally unrestricted in that each institution determines how the money is used, although in some cases the State makes grants for specific programs or construction projects. In the operating statements, these grants are classified as "Education" expenditures of the funds making grants.

The International Bridge Authority of Michigan at Sault Ste. Marie, Michigan is a joint venture of the State and Canadian governments and, therefore, is not included as a component unit in this report. The Authority is governed by a commission made up of five members, three from the State and two from Canada. Toll revenues are used to finance the cost of operating and maintaining the bridge as well as to cover debt service requirements. Budgetary and financial control over the Authority is the responsibility of the commission. The following is summary financial information for the Authority as of its fiscal years ended August 31 (in thousands):

	1988	1987
Current Assets	$1,920	$1,247
Current Liabilities	761	729
Total Equity	1,159	517
Total Revenues	3,624	2,995
Total Expenditures	3,039	3,165
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	641	(170)
Fixed Assets (cost)	2,852	2,833
Long-Term Debt (Bonds Payable)	7,850	7,850

B. Basis of Presentation

With the exception of amounts related to component unit statements, the financial statements are based upon financial transactions of the State as they are recorded in individual funds in the State's central accounting system. The amounts presented for component units are based upon audited financial statements and schedules issued by the units. As more fully explained in Note #2, the various funds and units are combined into the various fund types described below:

GOVERNMENTAL FUND TYPES

General Fund: The General Fund is the State's primary operating fund. It is used to account for general purpose financial resources and those restricted revenues which are not required to be accounted for in separate funds.

Special Revenue Funds: This fund group includes operating fund and component unit activities which account for the proceeds of certain specific revenue sources that are legally restricted for specified purposes.

Capital Project Funds: Funds and component units which account for the acquisition or construction of major State capital facilities financed by bond proceeds are reported in this fund group.

Debt Service Funds: This group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Note 1 continued on next page.

PROPRIETARY FUND TYPES

Enterprise Funds: This fund group includes component units and funds whose operations and finances are accounted for in a manner similar to private business enterprises. For this group, it is the intent of the State that: (a) the costs (i.e., expenses, including depreciation) of providing goods or services to the general public be financed primarily by user charges; or (b) "net income" be periodically determined and used as appropriate for capital maintenance, management control, or determination of amounts to be transferred to other operating funds as required by statute.

Internal Service Funds: This group is similar to enterprise funds except that the goods or services are provided primarily to other agencies or funds of the State, rather than to the general public.

FIDUCIARY FUND TYPES

Trust and Agency Funds: This group includes assets held by the State in a trustee or agent capacity. The group is subdivided into three subtypes: (a) pension funds which are accounted for in a manner similar to proprietary funds; (b) expendable trust funds which are accounted for in a manner similar to governmental funds; and (c) agency funds which are purely custodial in nature and for which asset and liability balances, but not operating results, are included in the general purpose financial statements.

ACCOUNT GROUPS

General Fixed Assets Group: This group of accounts is used to account for fixed assets (i.e., land, buildings, and equipment) owned by the State, except for assets of proprietary fund types which are recorded directly in those funds.

General Long-Term Obligations Group: This group accounts for all of the long-term obligations of the State, except for those accounted for directly in a fund.

TOTALS (MEMORANDUM ONLY)

Amounts in the "TOTALS - MEMORANDUM ONLY" columns represent summations of the fund types and account groups and are presented only for analytical purposes. The summations include fund types and account groups that use different bases of accounting, interfund transactions that have not been eliminated, and the caption "amounts to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "TOTALS - MEMORANDUM ONLY" columns are not comparable to a consolidation.

C. Basis of Accounting

The governmental fund types, expendable trust funds, and agency funds are accounted for on the modified accrual basis of accounting. There are some departures from the modified accrual basis for statutory/budgetary purposes. The nature of these departures is such that they affect how operating results are reported, but do not cause a difference in the balance sheet or in the calculation of unreserved fund balance. This is further explained in Note #3.

The modified accrual basis emphasizes the measurement of current financial resources and obligations (i.e., "financial flow" focus). Therefore, fund revenues and other financing sources are recorded when financial resources become "measurable and available" to fund current liabilities; expenditures are recorded when financial obligations (other than general long-term obligations and related interest) are incurred.

The proprietary fund types and the pension trust funds use the accrual basis of accounting. The accrual basis emphasizes the measurement of "net income," (i.e., "capital maintenance" focus). Using this basis, revenues are recognized when "earned" and expenses are recognized when "incurred." All financial resources and obligations of a fund, whether current or noncurrent, are recorded in the fund.

Note 1 continued on next page.

The primary effects of the differences in these bases are:

(1) For governmental fund types, most long-term liabilities are reported in the General Long-Term Obligations Account Group rather than as fund liabilities. The proceeds of long-term borrowings result in increases to fund balance because "other financing sources" are credited to the fund. Fund liabilities for both principal and interest related to general long-term obligations are recognized when they become "due and payable" (i.e., when normally liquidated with expendable available financial resources).

(2) Fixed asset acquisitions are recorded as expenditures of governmental fund types in the year acquired. Such assets are capitalized in proprietary fund types, with depreciation expense recognized over the life of the asset.

(3) In governmental funds, accrued revenue receivables which are not "available" are recorded as deferred revenue. Other noncurrent assets result in reservations of fund balance. Such deferrals and reserves are usually not reflected in proprietary type funds.

D. Fiscal Year-Ends

All funds and component units are reported using fiscal years which end on September 30, except for two component units. Two component units with June 30 year-ends are the Michigan State Housing Development Authority and the Michigan State Hospital Finance Authority, both of which are reported in the enterprise fund group.

The Mackinac Bridge Authority (MBA), which in prior years was reported on as of June 30, changed this year to a September 30 year-end. The amounts reflected in this report for this fiscal year are for the fifteen months ended September 30, 1988. The effect of this change on this year's statements has not been determined, but the amounts would not materially affect the State's report.

E. Assets, Liabilities, and Fund Equity

Equity in Common Cash: The State Treasurer maintains centralized management of most State cash resources (not including component units). The operations and investments of the common cash pool are described in Note #5.

Taxes Receivable: Tax revenue is accrued to the extent that it is both measurable and available. Application of the measurability and availability criteria regarding taxes is described in Note #6.

Amounts Due From Federal Agencies: For most federally funded programs revenue is accrued in the same period as related obligations are recorded. In certain programs financed entirely by the federal government, expenditures and related revenues are recognized only to the extent of billings received by fiscal year-end. This treatment, which is generally limited to certain programs within the Department of Education, understates both assets and liabilities, so there is no impact on fund balance.

Inventories: Inventories are valued at cost, primarily using a first-in, first-out flow assumption. Expenditures (governmental funds) and expenses (proprietary funds) are recognized using the consumption method (i.e., when used or sold).

Investments: Most equity securities are stated at cost and debt securities are stated at amortized cost. As explained in Note #19, mutual fund investments of the State's 401k deferred compensation plan are valued at market. Additional disclosures describing investments are provided in Note #9.

Property, Plant, and Equipment: General fixed assets are recorded at historical cost or, if donated, at the estimated fair market value at the date of acquisition. In assembling the General Fixed Assets Account Group for the first time in 1985, certain fixed asset costs were not available; historical costs of these assets at the dates of acquisitions have been estimated. Expenditures of the governmental fund types which materially extend the useful life of existing fixed assets are capitalized.

Infrastructure ("public domain") fixed assets such as undeveloped State owned lands, roads, and bridges are not capitalized. Interest incurred during construction is not capitalized and depreciation is not provided on general fixed assets.

Note 1 continued on next page.

Assets of proprietary funds are capitalized at cost upon acquisition and depreciation expense on buildings and equipment is recorded over the expected useful lives of the assets. Depreciation is calculated using the straightline method, except for automotive equipment in the Motor Transportation Revolving Fund (an internal service fund) which is depreciated using the 150% declining balance method.

Additional disclosures related to fixed assets and assets acquired through capital leases are provided in Notes #11 and #16, respectively.

Warrants Outstanding: Warrants outstanding represent drafts issued against the State Treasurer which have not yet cleared. These are somewhat similar to outstanding checks; however, cash is not reduced until the warrant is redeemed.

Income Tax Refunds Payable: The amount of collected or accrued personal income tax revenues that will be refunded is estimated and accrued as a General Fund liability. Note #7 explains the significant impact that tax credit programs have on the amounts being accrued.

Deferred Revenue: Deferred revenue is recognized when cash, receivables, or other assets are received or recognized prior to their being earned or available. Unearned revenue deferrals are classified with current liabilities; unavailable revenue deferrals are classified as short-term or long-term based upon whether the related receivable is due within 12 months.

Long-Term Liabilities: General long-term obligations which are not reported as fund liabilities are reported in the General Long-Term Obligations Account Group. The group, which is more fully described in Note #15, includes general obligation and revenue dedicated bonds, capital lease obligations, compensated absences, claims and judgments, workers' compensation, early retirement program, and unemployment compensation fund interest deferral liabilities related to the funds accounted for on the modified accrual basis. Except for capital lease obligations and claims and judgments, fund expenditures are recognized for these obligations when they become "due and payable." The accounting for capital lease obligations is explained in Note #16 and the accounting for claims and judgments is explained in Note #15.

The "Advances from federal agencies" line reports the portion of the federal advance to the Michigan Unemployment Compensation Fund (expendable trust) which is not expected to be repaid within twelve months. Note #17 describes this advance.

Long-term liabilities of the proprietary funds are recognized in the funds, except for the portions of the workers' compensation liability for which fund distribution is not reasonably estimable. The long-term liabilities of these funds are more fully explained in Notes #16 and #18.

Fund Equity: Fund equity represents the difference between fund assets and fund liabilities. The governmental and fiduciary funds' fund equity is called "fund balance." The portion of a proprietary fund's fund equity attributable to accumulated earnings is referred to as "retained earnings." Amounts provided by other funds or governmental units for property, plant, and equipment or for original start-up costs for new funds are classified as "contributed capital." Contributed capital was not recorded by the State in prior years. Note #4 describes the effect of this change and Note #22 explains the basis for the amounts which are now recorded.

Fund Balance Reservations: Fund balances for all governmental funds are classified as either reserved or unreserved. Reserved fund balances reflect either: 1) funds legally segregated for a specific use or 2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for expenditure for the general purposes of the fund. Details related to the make-up of reserved fund balances are reported in Note #24.

As more fully explained in Note #24, certain assets for which the State is acting as a trustee are accounted for in expendable trust funds. These funds' unreserved balances represent net assets held by the State on behalf of others.

F. Revenues, Expenditures, Encumbrances, Expenses, and Other Financing Sources and Uses

Revenues: Revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance.

Note 1 continued on next page.

Revenues of governmental funds that accrue to the State independent of when expenditures are incurred by the State (such as taxes, licenses, and permits) are considered "available" if the payer incurs the obligation to the State before year-end and payment is received within 60 days of year-end. The recording of delinquent taxes receivable is the only significant departure from the above (see Note #6).

Revenues which the State earns by incurring obligations (such as matching federal grants) are generally recognized in the same period that the related obligations are recognized. Such accrued revenue is considered available even if it is not received within 60 days of year-end. This method provides improved reporting and control at the program level because it appropriately matches funding sources and uses.

Expenditures: Expenditures are reported by character: "Current," "Capital outlay," "Intergovernmental - revenue sharing," or "Debt service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Capital outlay includes expenditures for real property or infrastructure (e.g. highways). Intergovernmental revenue sharing is used to account for the distribution of certain tax revenues which are shared with local units based upon statutory requirements. Debt service includes both interest and principal outlays related to bonds accounted for in the General Long-Term Obligations Account Group and payments on capitalized leases.

Encumbrances: Encumbrances are commitments related to unperformed (executory) contracts for goods or services. During the fiscal year, agencies may enter all types of encumbrances in the accounting system for spending control purposes. For year-end financial reporting purposes, encumbrances are recorded only to the extent that spending authority is allowed to be carried forward to the next year. How encumbrances are reflected in the statements is more fully described in Note #3.

Unless a statutory exception has been made, there are limits on the types of encumbrances that can be recorded as spending authority carry-forwards at year-end. Encumbrances are not recorded against multi-year project (capital outlay and work project) appropriations which do not lapse until project completion. Other encumbrances are recorded only if the encumbrance is for an obligation that was entered into prior to September 16. Encumbrances for services are recorded only if the contract is for a nonrecurring item. Encumbrance contracts for goods that specify delivery after September 30 are not recorded and encumbered amounts in excess of line-item spending authority are not recognized.

Expenses: Expenses are classified as operating or nonoperating and are subclassified by object (e.g., salaries, depreciation, and purchases for resale).

Other Financing Sources: These additions to governmental fund balances include resources and financing provided by bond proceeds, capital leases, and operating transfers from other funds. This year a recovery of receivables from Wayne County which were written down in prior years is also reported in this category. This is described more fully in Note #8.

Other Financing Uses: These are reductions of governmental fund resources, normally resulting from operating transfers to other funds.

G. Interfund Transactions

Operating Transfers: Except as described below, transactions between funds are classified as operating transfers. These include most of the routine transfers of resources between funds, such as when funds received in one fund are used to finance expenditures appropriated in another fund.

Equity Transfers: Residual equity transfers, which are detailed in Note #22, are used to record nonrecurring or nonroutine transfers of equity between funds.

Reimbursements: The reimbursement method reclassifies an expenditure/expense from the fund originally making a disbursement to another fund to which the expenditure/expense is more properly attributable. The State uses this method primarily in those cases where the administrative costs of enterprise funds and component units are appropriated in the General Fund.

Quasi - External Transactions: Certain interfund transactions are recorded as if they were occurring with an outside entity. This method is most commonly used to report revenues of the internal service funds, pension funds, and certain expendable trust funds. The paying funds report expenditures or expenses, depending upon fund type.

NOTE 2 — FUNDS BY CLASSIFICATION

The following table lists all of the funds and component units which make up the various fund types as of September 30, 1988. Component units which are not accounted for in the State's central accounting system but which are included in the reporting entity pursuant to GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, are identified by "(cu)." Operating funds which are subject to annual appropriation and for which statements comparing budget to actual are included in this report are identified by an "*" (see Note #3).

General Fund*

Special Revenue Funds:

Transportation Related:
- State Aeronautics Fund*
- State Trunkline Fund*
- Michigan Transportation Fund*
- Comprehensive Transportation Fund*
- Comprehensive Transportation Bond Construction Fund
- 1983 State Trunkline Fund Bond Proceeds Fund
- 1984 Comprehensive Transportation Bond Proceeds Fund
- 1984 State Trunkline Fund Bond Proceeds Fund

Conservation and Recreation Related:
- Game and Fish Protection Fund*
- Michigan State Waterways Fund*
- Marine Safety Fund*
- Game and Fish Protection Trust Fund
- State Park Improvement Fund*
- Michigan Natural Resources Trust Fund*
- Water Pollution Control Bond Fund
- Michigan Nongame Fish and Wildlife Fund*

Regulatory and Administrative Related:
- Michigan Employment Security Act – Administration Fund*
- Motor Vehicle Accident Claims Fund*
- Safety Education and Training Fund*
- State Construction Code Fund*
- Michigan Justice Training Fund*
- Homeowner Construction Lien Recovery Fund

Other State Funds:
- Counter-Cyclical Budget and Economic Stabilization Fund*
- Michigan Veterans' Trust Fund*
- School Aid Fund*
- Vietnam Veteran Era Bonus Fund
- School Bond Loan Fund
- Children's Trust Fund*
- State Building Authority Advance Financing Fund

Component Units:
- State Building Authority (cu)
- Michigan Higher Education Facilities Authority (cu)
- Michigan Family Farm Development Authority (cu)
- Mackinac Bridge Authority (cu)

Debt Service Funds:
- Combined State Trunkline Bond and Interest Redemption Fund
- Water Pollution Control Bond and Interest Redemption Fund
- Combined Comprehensive Transportation Bond and Interest Redemption Fund
- Public Recreation Bond and Interest Redemption Fund
- Vietnam Veteran Era Bonus Bond Redemption Fund
- School Loan Bond Redemption Fund
- State Park Revenue Bond Fund
- State Building Authority (cu)

Capital Projects Funds:
- Public Recreation Bond Fund
- State Building Authority (cu)
- State Building Authority Advance Financing Fund

Enterprise Funds:

State Funds:
- Liquor Purchase Revolving Fund
- State Lottery Fund
- Low-Level Radioactive Waste Authority
- Michigan State Fair Revolving Fund
- Department of Natural Resources Magazine Fund

Note 2 continued on next page.

Component Units:

Michigan State Hospital Finance Authority (cu)
Michigan Higher Education Student Loan Authority (cu)
Michigan Higher Education Assistance Authority (cu)
Mackinac Island State Park Commission (cu)
Michigan Strategic Fund (cu)
Michigan State Housing Development Authority (cu)

Internal Service Funds:

Correctional Industries Revolving Fund
Federal Surplus Revolving Fund
Motor Transport Revolving Fund
Office Services Revolving Fund
Telecommunications Revolving Fund
State Sponsored Group Insurance Fund

Trust Funds:

Pension Related:

Legislative Retirement Fund
State Police Retirement Fund
State Employees' Retirement Fund
Public School Employees' Retirement Fund
Probate Judges' Retirement Fund
Judges' Retirement Fund

Expendable Trust Funds:

Michigan Unemployment Compensation Fund (cu)
Michigan Employment Security Act Contingent Fund
Michigan State Accident Fund (See Note 1A)
Second Injury Fund
Municipal Employees' Retirement Fund
State Employees' Deferred Compensation Fund II (401k)
Michigan Education Trust (cu)
Transportation Related Trust Funds
Miscellaneous Trust Accounts Fund

Agency Funds:

Receipts Clearing Fund
Metropolitan Planning Fund
Contribution Fund (Social Security)
State Employees' Deferred Compensation Fund I (457)
Hazardous and Solid Waste Disposal Facilities Closure Guarantee Fund
Insurance Carrier Deposits Fund

NOTE 3 — BUDGETING AND BUDGETARY CONTROL

A. Major Constitutional and Statutory Provisions

Balanced Budget Requirements: Article V of the State Constitution mandates that the executive budget recommend spending limits for operating funds to the Legislature that are within available resources. Compliance with this is demonstrated in the "Executive Budget" for each fiscal year.

Article IV of the State Constitution mandates the Legislature to enact appropriations for a fund that do not exceed that fund's revenue estimates. Compliance with this requirement is demonstrated in schedules included in the annual appropriation acts, usually the "General Government" appropriation act.

When it appears that revenue will fall below the estimates on which the appropriations are based, the Governor is required to recommend spending reductions as necessary to avoid a year-end deficit. This was not necessary in this fiscal year.

Revenue Limits: Effective beginning with fiscal year 1979-80, Article IX, Section 26 of the State Constitution restricts State revenues to a ceiling based upon revenues as a proportion of personal income. It provides that State revenues (other than federal aid and revenues for payment of principal and interest on general obligation bonds) in any fiscal year are limited to a percentage (approximately 10%) of State personal income in the prior calendar year or that percentage of the average State personal income in the previous 3 calendar years, whichever is greater. If revenues exceed the revenue limitation by 1 percent or more, the entire amount of such excess is to be rebated to personal income and single business taxpayers. Any excess of less than 1 percent may be transferred to the State's Budget Stabilization Fund; however, the Legislature is under no obligation to do so.

Note 3 continued on next page.

The statutes establishing the methods to be used in determining compliance with this section were recently revised and final calculations under the new statute are not yet available. The Department of Management and Budget believes that the revenue ceiling has not been exceeded in any of the fiscal years since 1978-79 and the likelihood that refunds will be required is extremely remote.

Local Spending Requirements: Article IX, section 30 requires that State spending to, or on behalf of, local units of government not fall below 41.61% of total State spending. Calculations of the percentage paid in 1987-88 are not yet complete, however, it is anticipated that payments to local units exceeded the requirement. For fiscal year 1986-87, the percentage paid to local units amounted to 43.91%.

The methods used by the State to measure payments to, or on behalf of, the local units are involved in litigation cases and the State has lost one case at the circuit court level. The State is appealing that case and has been granted a stay. The State believes its position will prevail at the appellate level. If the State does lose, however, it is considered most likely that any remedy would be prospective in nature and therefore no liability or loss provision has been established for this contingency.

Budget Stabilization Fund: The Counter-Cyclical Budget and Economic Stabilization Fund was created by Public Act 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession. In general, the law requires payments into the fund when real economic growth exceeds 2% and allows withdrawals from the fund when real economic growth is less than 0%. Funds can also be withdrawn to fund capital outlay projects.

The following summarizes the transactions for the fund for 1987-88 (in millions):

Beginning balance - unreserved	$352.0
Interest income	29.1
Ending balance - unreserved	$381.2

Within the fund, $11.9 million is reserved for prison construction. This represents unspent spending authority for projects appropriated in the General Fund in prior years, with financing to be provided by the Budget Stabilization Fund. Transfers from the reserve are made as expenditures occur.

The beginning balance of the reserve for prison construction was $32.3 million. During 1987-88, $20.4 million was utilized for prison construction, leaving the balance in the reserve of $11.9 million.

B. Budgetary Control - Governmental Fund Types

A number of different budgetary control processes are used for the various funds and programs within funds. Annual legislative appropriations and revenue estimates are provided only for operating funds. These annually budgeted operating funds include the General Fund and 19 of the special revenue funds. (Note #2 identifies the annually budgeted operating funds.) The other funds do not have complete legally adopted budgets, but they are usually subject to some more limited form of budgetary control, such as financial plans or a limiting of expenditures to the amount of resources. The budget to actual comparative statements in this report reflect only the annually budgeted operating funds of the oversight entity.

Revenues: General purpose (unrestricted) revenue estimates are provided in both the original executive budget and in original legislative appropriations in order to demonstrate compliance with constitutional provisions. Public Act 431 of 1984 makes the Department of Management and Budget responsible for updating revenue projections. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

Spending: The level and method of control provided over spending varies significantly between funds and programs. However, most spending authorizations for operating funds are broken down into object categories (e.g., salaries) by organizational subunits (e.g. divisions) of departments. If a department wishes to transfer spending authority from one account to another, it must, generally, receive legislative approval. Expansion of total spending authority usually requires a supplemental appropriation. In the event that expenditures exceed authorization during a year, the department must request a supplemental appropriation (carry-back) for the amount overspent.

Note 3 continued on next page.

For programs financed from restricted revenues, spending authorizations are generally contingent upon recognition of the related revenue. If revenues fall short of estimates, related spending authorizations are reduced. If revenues exceed the estimate, supplemental appropriations are usually required before they can be spent.

Budgetary control of spending is maintained by the central accounting system at the appropriation account level. Spending authority accounts are at a level of detail which makes it infeasible to include a comparison of budget to actual at the level of budgetary control in the State's Comprehensive Annual Financial Report. A separate report is published by the Department of Management and Budget detailing the disposition of authorizations at the spending account level.

C. Statutory/Budgetary Presentation

In the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds," expenditures, operating transfers out, and encumbrances are combined and classified by department, rather than being reported by character and function as shown in the GAAP statements. This departmental classification is used to better reflect organizational responsibility and to be more consistent with the budgetary process. Generally accepted accounting principles require that the final legal budget be reflected in the "budget" column, therefore the updated revenue estimates as of November 30, rather than the amounts shown in the original budget, are reported. The November 30 date is used because P.A. 431 of 1984 permits budget adjustments by the Legislature through 60 days after year-end.

The expenditures budget column represents original and supplemental authorizations (i.e., appropriations and carry-forwards) as adjusted for carry-backs (i.e., current year appropriations for prior year overdrafts), executive order reductions, approved transfers, restricted revenue adjustments, prior year carry-forward corrections, and timing differences. The timing differences primarily result from authorizations for multi-year projects, such as capital outlay and work projects, which are provided for a period of more than one year. Such authorization balances remaining at year-end are removed from the budget column so as to provide an "annualized" budget. "Favorable variances" generally reflect unused general purpose spending authority ("lapses") and/or unused restricted revenue authority which carries over as a reservation of fund balance; "unfavorable variances" reflect budgetary overdrafts. If both favorable and unfavorable variances exist for a particular line, the amount shown is the net variance.

Prior year carry-forward corrections result when, subsequent to year-end, it is found that either spending authority which should have been lapsed was carried forward, or that authority which should have been carried forward was lapsed. For example, agencies may designate accounts as work project carry-forwards and it may be later determined that they have not met the legal requirements for such treatment. When these situations occur, the spending authority ("Budget") in the new year is reduced (or reinstated). Therefore, the amount reflected for spending authority brought forward in the current year will not agree, exactly, with the amount reserved for multi-year projects in the prior year.

The Office of the Auditor General is questioning the legal authority for budgetary carry-forwards of $21.7 million last year and $31.3 million this year. Expenditures from the $21.7 million questioned last year amounted to $7.1 million this year. The carry-forwards being questioned have arisen because of situations where legislative intent is not clearly stated in the appropriations. Public Act 431 of 1984 was amended in December of 1988 to provide a process for clarifying intent in situations such as those currently in question.

D. Statutory/Budgetary Reconciliation - General Fund and Special Revenue Funds

The statutory/budgetary basis presentation differs from GAAP in ways that do not affect ending fund balance:

Encumbrances: As explained in Note #1, the State records encumbrances at year-end only if they meet certain criteria. For budgetary reporting purposes, the recorded encumbrances are included with expenditures and operating transfers in the "Actual" columns because they are considered uses of spending authority in the year the State incurs an obligation. The "Budget" columns include encumbrance authorization balances carried over from the prior fiscal year because they provided spending authority in the current year. In the GAAP basis statements, encumbrances are not included as expenditures. The effect of this difference is reflected as a reconciling item on the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds." The encumbrance of spending authority is recorded as a reservation of fund balance under both bases of accounting.

Note 3 continued on next page.

Capital leases: For budgetary purposes, capitalizable lease expenditures are recognized when payments are due, rather than upon lease inception as required by GAAP. This difference does not affect fund balance because the "other financing sources" recorded under GAAP at lease inception are not recorded on the statutory/budgetary basis.

E. Budgetary Overdrafts

The following summarizes line-item overexpenditures (in thousands) of State funds incurred during the year:

General Fund	
Legislative	$ 61
State	32
Education	25
Public Health	1
Mental Health	38,506
Social Services	89,508
Corrections	635
Military Affairs	4
State Police	507
Commerce	9
Labor	155
Licensing and Regulation	51
Natural Resources	290
Agriculture	96
Items Not Assigned to Departments	2
General Fund Total	$129,889

Special Revenue Funds	
State Aeronautics Fund	$ 21
Michigan Transportation Fund	32
Comprehensive Transportation Fund	14
Game and Fish Protection Fund	263
Michigan State Waterways Fund	77
Marine Safety Fund	3
Michigan Natural Resources Trust Fund	258
Michigan Veterans' Trust Fund	31
School Aid Fund	2,466
Special Revenue Funds Total	$ 3,169

NOTE 4 — ACCOUNTING CHANGES

Contributed Capital

In prior fiscal years, the State did not separately report contributed capital as an element of fund equity in its proprietary type funds. This year, capital contributions are being reported as fund equity transactions, rather than as operating transfers or equity transfers as was done in the past. This change is in accordance with generally accepted accounting principles. Except for the Motor Transport Revolving Fund (an internal service fund) and Michigan Higher Education Assistance Authority (an enterprise fund), beginning balances were restated as of October 1, 1987 for capital contributions made during the 1986-87 fiscal year. Amounts contributed prior to October 1, 1986 are not considered reasonably measurable, except for the Motor Transport Revolving Fund and the Michigan Higher Education Assistance Authority whose balances were restated to reflect contributions in years prior to 1986-87.

Note #22 provides information on the funds and amounts involved in this reporting change.

School Bond Loan Fund Loans

Under the State's school bond loan program, the State makes loans to local school districts from proceeds of general obligation bonds. In prior fiscal years, the School Bond Loan Fund, a special revenue fund which receives the proceeds from bond issues, recorded loans as expenditures when they were made. Repayments were recorded as revenue in the School Loan Bond Redemption Fund (a debt service fund) where, by statute, repayments are first used to cover debt service requirements of the related bonds. Excess loan repayments are transferred to the School Bond Loan Fund where they are available for making new loans.

Note 4 continued on next page.

Beginning with this fiscal year, an accounting change was made so that these loans could be properly reported as assets on the State's balance sheet, in accordance with generally accepted accounting principles. The special revenue fund now reports operating transfers to the debt service fund when loans are made, rather than expenditures. The loans to school districts are reported as long-term assets in the debt service fund. The loan principal outstanding is reflected as a reserve for noncurrent assets; interest revenue is recognized as it is received and recognition of interest receivable is deferred because it is not considered available.

This change was made effective October 1, 1987 and the beginning fund balance of the debt service fund has been restated to reflect the amount of loan principal outstanding ($75.3 million) at the beginning of this fiscal year. Total long-term receivables at October 1, 1987 were $119.2 million and long-term deferred interest receivable was $43.9 million. The effect of this change on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances was to decrease expenditures and increase operating transfers out in the special revenue funds by $2.9 million. In the debt service funds, the effect was to increase operating transfers in by $2.9 million and reduce revenues by $3.8 million.

State Building Authority Advance Financing Funds

Two new funds, one capital project fund and one special revenue fund, were created to account for expenditures made in anticipation of future State Building Authority bonding. Appropriation acts allow the General Fund to provide temporary financing of such expenditures for legislatively authorized projects. Disbursements on behalf of the State Building Authority were originally recorded in General Fund receivable accounts. At year-end, a liability to the General Fund and expenditures were recorded in these new funds because the Authority had not issued bonds for certain projects. Outstanding liabilities related to these projects were also recorded in this fund.

The funds were created because the State Building Authority in its statements does not recognize expenditures and liabilities for projects until bonds are issued. This recognition will avoid understating expenditures ($49.7 million) and operating transfers out ($13.0 million) in the capital projects funds and expenditures ($4.5 million) in the special revenue funds. As explained in Note #24, the two new funds have ending fund balance deficits because amounts recoverable from the State Building Authority are not recorded as receivables. The effect on the combined financial report is the same as though adjusting entries had been recorded directly to the State Building Authority funds. In prior years, the amounts involved were immaterial and no year-end adjustments were necessary.

NOTE 5 — TREASURER'S COMMON CASH

A. General Accounting Policies

The State Treasurer manages the State's common cash pool, which is used by most State funds. The pooling of cash allows the Treasurer to invest monies not needed to pay immediate obligations so that investment earnings on available cash are maximized. Investments of the pool are not segregated by fund, rather, each contributing fund's balance is treated as equity in the pool, which is recorded in separate accounts within the General Fund. Many funds, including retirement funds, use their equity in the pool as a short-term investment vehicle. The Treasurer annually publishes the "Annual Report of the State Treasurer" which includes audited schedules of Common Cash Assets and Equities, Fund Investments by Type of Security, and Investment Earnings.

In the State's Comprehensive Annual Financial Report, the pooled cash is not reported as a separate fund, rather each fund's balance in the pool is reported on the balance sheet on the lines "Equity in Common Cash" or "Liability to Common Cash." Accrued earnings of the pool are recorded as "other assets" in the General Fund and accrued distributions for the quarter ending September 30 are reflected as interfund receivables and payables. Interest revenues on positive balances and interest charges on negative balances are reflected as revenues or expenditures/expenses of each of the participating funds using the reimbursement method.

Whether a particular fund receives or pays interest on its balances in the pool is determined by statute or administrative policy. If a fund does not receive or pay interest, the General Fund receives or absorbs such charges. Earnings on positive balances and charges on negative balances are allocated quarterly based upon the average daily balances of the various funds and the average investment earnings rate for the quarter.

Note 5 continued on next page.

B. Investments and Deposits

The investment authority for the common cash pool is found in P.A. 105 of 1855, as amended. The State Treasurer may invest surplus funds belonging to the State in the bonds, notes, and other evidences of indebtedness of the United States Government, and its agencies; and in prime commercial paper. Certificates of deposits are permitted in financial institutions whose principal office is located in the State of Michigan.

The Treasurer invests excess cash in short-term investments, mostly prime commercial paper. The Treasurer is not prohibited by law from entering into repurchase agreements; however, the Treasurer did not use these agreements in managing the pool in 1987-88.

Statutes provide for certain special State investment programs for which the General Fund is credited (charged) for earnings in excess (under) those achieved by regular pool investments. There have been no principal losses because of these to date. The programs are as follows:

Emergency Loans to Local Units of Government: The Treasurer may loan not more than a combined total of $5 million in any one fiscal year to qualifying cities, villages, or townships in amounts as approved by the Emergency Financial Assistance Loan Board. These loan provisions were amended during the fiscal year to allow for up to $120 million in loans to Wayne County to finance payment of certain obligations to the State. This settlement of obligations is described more fully in Note #8. Under the provisions of the loan agreement, interest on the loan will be forgiven if the County meets certain criteria. If the interest is forgiven, the General Fund will absorb the loss by a reduction of its portion of the pool's investment income. Since it is anticipated that the County will satisfy the criteria allowing forgiveness, the loan and the General Fund's equity in common cash have been discounted to present value.

The repayment of the loan by the County is supported by an agreement and legislation which pledges the County's share of a portion of the State collected taxes on cigarettes.

Agricultural Loan Program: Created in 1985, this program permitted the Treasurer to invest up to $139 million in below market rate certificates of deposits and notes of financial institutions for the purpose of providing the financial institutions with funds to lend, at the financial institution's risk, to qualified farm operations. Repayment to the State by the financial institution was not conditioned upon repayment of the loan to the financial institution by the farmer and loans to financial institutions were fully collateralized. Under this program, rates charged to the financial institutions were set for 90-day periods at 2 percentage points below the 30-day Treasury bill auction rate. All loans to the financial institutions became due under the statute no later than June 30, 1988.

Farm Disaster Relief Program: Created in 1986, this program permits the Treasurer to invest up to $200 million in zero percent rate of interest certificates of deposit and notes of financial institutions for a term of at least 3 years for the purpose of providing the financial institutions with funds to lend to farmers with weather related losses in 1986 at zero percent rate of interest. Repayment to the State by financial institutions must be made after 3 years unless a financial institution can show on an annual basis that the farmer to whom a loan has been made is experiencing financial distress, in which case the State investment may remain outstanding for an additional 7 years.

Note 5 continued on next page.

The following schedule of assets and equities (in millions) is a summary of the common cash pool as of September 30.

ASSETS	1988	1987
Cash on hand	$ .1	$ .3
Demand deposits	112.6	116.1
Time deposits -- regular	14.8	61.1
Time deposits & notes -- Agricultural Loan Program	-	136.5
Time deposits & notes -- Farm Disaster Relief Program	151.6	144.7
Prime commercial paper -- at cost	1,706.4	1,598.9
U.S. Treasury bonds -- at cost	5.1	5.1
Emergency loans to local units -- at cost	74.3	12.2
Less discount on interest free loan	(15.3)	-
Total assets	$2,049.8	$2,075.1
EQUITIES		
Fund equities in common cash	$2,186.8	$2,218.5
Fund liabilities to common cash	(154.5)	(154.4)
Imprest cash and other items	17.5	11.0
Net fund equities	$2,049.8	$2,075.1

At September 30, 1988 and 1987, the market value of prime commercial paper was $1,714.4 and $1,606.8 million, respectively and the market value of the U.S. Treasury bonds was $5.1 million and $4.8 million, respectively. Using the GASB categories of credit risk (described in Note #9), all of the investments are in category 1, except for $936.8 million of prime commercial paper which falls in category 2. The category 2 prime commercial paper investments are those where the State's agent is one of the issuing banks for the issuer.

Deposits, including time, demand, and agricultural loan program deposits, are fully insured by the FDIC ($11.0 million) or collateralized with securities held by the State's agent in the State's name ($95.6 million), except for uncollected deposits ($49.1 million). Using the GASB categories of deposit credit risk (described in Note #9), all of the deposits, except for the uncollected deposits, are in category 1.

Of the Farm Disaster Relief program amounts, $28.2 million is categorized (risk category #1) as deposits with banks and $123.4 million is categorized with investments (e.g., notes receivable from production credit associations and banks).

NOTE 6 — TAXES RECEIVABLE

In general, taxes receivable represent amounts due to the State at September 30 that were received by the State within approximately 60 days. Sales, use, and income taxes are accrued to the extent that the related sales or wage payments occurred prior to October 1 and the State receives deposits prior to December 1. Annual tax payments (e.g. those filed on an annual basis) have not been accrued because they are neither reasonably estimable nor available. Single business tax revenue is similarly accrued, with receipts through early December (i.e., quarterly filings are due November 30) recognized as revenue to the extent that the activities being taxed occurred prior to October 1. The telephone and telegraph taxes are due December 1 and are received at approximately that time. Delinquent taxes are recognized to the extent that they will be collected within 12 months, except for the Michigan Unemployment Compensation Fund (expendable trust) which only records taxes received within 60 days as receivables.

Note 6 continued on next page.

Taxes receivable (amounts expressed in millions), as of September 30, consisted of the following:

	FUND TYPES				
	General	Special Revenue	Expendable Trust	1988 Total	1987 Total
Sales & Use Taxes	$ 301.6	$ 174.7	$ –	$ 476.2	$ 438.7
Individual Income Taxes	542.6	–	–	542.6	462.3
Single Business Taxes	540.5	–	–	540.5	430.0
Telephone & Telegraph Taxes	64.2	–	–	64.2	60.8
Motor Fuel Taxes	–	87.3	–	87.3	73.3
Cigarette Taxes	26.1	2.3	–	28.4	26.2
Unemployment Taxes (See note #17)	–	–	144.5	144.5	156.2
Other Taxes	25.2	20.1	–	45.4	38.2
Penalties and Interest	425.6	–	–	425.6	318.4
Gross Taxes Receivable	1,925.8	284.4	144.5	2,354.7	2,004.6
Less allowance for uncollectibles	(819.3)	(76.2)	–	(895.5)	(688.8)
Less taxes to be received more than 12 months after year end	(35.8)	(4.1)	–	(39.8)	(35.9)
Current Taxes Receivable	$1,070.7	$ 204.1	$ 144.5	$1,419.3	$1,279.8

NOTE 7 — TAX EXPENDITURES

The Michigan Income Tax Act allows for tax credits which are applied against the computed individual income tax amount. The property tax and home heating credits may exceed an individual's tax liability and generate a payment to the individual. These credits are accounted for as a reduction of income tax revenue, similar to over withholding refunds.

Calendar year 1988 estimates and 1987 actual return credits are presented in the following table (in millions):

	CALENDAR YEAR	
	1988 Estimate	1987 Actual
Property tax credits		
General homestead	$305.0	$287.3
Senior citizens	295.0	274.7
Farmland preservation	65.0	58.0
Other	13.0	12.5
Subtotal – property tax credits	678.0	632.5
Other credits		
City income tax	31.0	29.6
College contributions	16.0	15.1
Home heating (including federal share)	34.0	34.6
Others	20.5	18.6
Total individual income tax credits	$779.5	$730.4

Of the 1988 estimated credits, $527.0 million has been established as a liability of the General Fund at September 30, 1988 and is included in the "Income Tax Refunds Payable" amount of $706.4 million.

NOTE 8 — SETTLEMENT FROM LOCAL UNIT

The General Fund other financing source of $33.9 million on the Statement of Revenues, Expenditures, and Changes in Fund Balances line titled "Settlement from local unit" resulted from an agreement reached during this fiscal year with Wayne County. The agreement superseded a 1984 debt settlement that, in the 1982-83 fiscal year, had resulted in a write-off of a $89.5 million receivable which was reported as an "other financing use" at that time. This accounting treatment was used because, although the 1984 agreement would have required the County to continue payments on its then outstanding debt to the State in yearly installments through 1994, the required future payments were not currently available resources. The 1984 agreement also contained provisions for potential "offsets" against a portion of the amounts owed.

The amount received under this year's settlement includes the approximately $49.4 million amount owed under the 1984 agreement which was not subject to offset. As explained more fully in Note #5, the County financed this payment by obtaining a loan from the State Treasurer's Common Cash Pool authorized by the State's Local Emergency Financial Assistance Loan Board. The County is expected to meet certain conditions which will result in interest on the loan being forgiven. The loan and the General Fund's equity in the common cash pool has, therefore, been discounted by $15.3 million and this was reflected as a reduction from the $49.4 million received.

NOTE 9 — DEPOSITS AND INVESTMENTS

A. General Information

This note provides information for all deposits and investments except those of the Common Cash pool which are described in Note #5. The following table summarizes "Investments" (including deposits with financial institutions that are held for investment purposes) as reported on the balance sheet (in millions):

Fund Type	Current Investments	Noncurrent Investments	Total Investments
General Fund	$ -	$ -	$ -
Special Revenue			
State Funds	-	25.6	25.6
Component Units:			
State Building Authority	45.9	8.3	54.2
Other Component Units	11.2	-	11.2
Total	57.1	34.0	91.1
Debt Service			
State Funds	1.4	.1	1.6
Component Units:			
State Building Authority	146.2	70.1	216.4
Total	147.7	70.3	218.0
Capital Projects			
Component Units:			
State Building Authority	60.6	-	60.6
Total	60.6	-	60.6
Enterprise			
State Funds:			
State Lottery Fund	41.6	335.4	377.1
Component Units:			
Michigan State Housing Development Authority	256.4	327.7	584.2
Michigan State Hospital Finance Authority	276.5	921.3	1,197.9
Michigan Higher Education Assistance Authority	34.3	14.8	49.1
Other Component Units	34.3	79.6	113.9
Total	643.3	1,679.1	2,322.4

Note 9 continued on next page.

Fund Type	Current Investments	Noncurrent Investments	Total Investments
Trust and Agency			
State Funds:			
Pension Trust Funds	2,045.3	12,714.4	14,759.7
Municipal Employees' Retirement Fund	135.8	948.4	1,084.2
State Employees' Deferred Compensation Fund I (457)	-	693.2	693.2
Other State Funds	14.2	376.9	391.1
Component Units:			
Michigan Unemployment Compensation Fund	1,154.8	-	1,154.8
Michigan Education Trust	10.4	-	10.4
Total	3,360.8	14,732.9	18,093.8
Total State Funds	2,238.6	15,094.3	17,332.9
Total Component Units	2,031.0	1,422.1	3,453.1
Total Investments	$ 4,269.6	$ 16,516.5	$ 20,786.1

The GASB's Statement 3 requires certain disclosures regarding policies and practices with respect to deposits and investments and the credit risk associated with them.

Deposits: In accord with Statement 3, deposits are classified into three categories of credit risk, as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name

Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)

Investments: In accord with Statement 3, investments are also classified into three categories of credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.)

Certain types of investments, such as money market funds and mutual funds, are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Because a combining of the disclosures for all of the various funds and component units would not provide a useful description for the various entities involved, the State has chosen to present these disclosures separately for the major entities with investments. Disclosures for State funds have been broken into two basic categories: pension system funds and other funds. Information regarding these deposits and investments was provided by the State Treasurer, who manages these investments.

Information for component units has been excerpted or summarized from the separately issued financial reports for each component unit. Readers interested in more detail regarding particular component units may wish to obtain the separately issued financial reports.

Note 9 continued on next page.

B. State Funds' Investments

Investment Authority and Policies

Investment authority for the State's pension funds and the Municipal Employees' Retirement Fund is found in P.A. 314 of 1965, as amended. This act allows the State Treasurer, as investment fiduciary, to make diverse investments in stocks, corporate and government bonds and notes, mortgages, real estate, venture capital, and other investments. The act has prudence standards and requires that the assets of a retirement system shall be invested solely in the interest of the participants and beneficiaries and be made for the exclusive purpose of providing benefits to the participants and the participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the state system. Public Act 252 of 1988, with an effective date of January 1, 1989, amended the statute to prohibit new investments in companies that do business in South Africa and require a phased in divestiture of such investments.

The State Treasurer is also authorized to invest a limited amount of pension funds in the "S & P 500 Futures Contract Market." Such investments were made during the year, however, no such investments were outstanding at year-end.

The investment authority for other State funds is found in their enabling legislations and/or their bond resolutions where applicable. With the exception of deferred compensation plans, which primarily invest in guaranteed investment contracts with insurance companies, the investments of the non-pension funds are comprised mostly of United States government securities.

As a matter of administrative policy, the State Treasurer makes only limited use of investments in repurchase agreements. These agreements are used, however, for the State Park Revenue Bond Fund, a "fiscal agent" fund which does not participate in the common cash pool. No such investments were outstanding at year-end.

The following table shows the carrying amounts and market values of investments of the State funds by investment type and in total (in millions) at September 30, 1988:

	Carrying Amount			
Type of Investment	Pension Trust Funds	Other State Funds	Total	Market Value
Prime commercial paper	$ 2,045.3	$ 135.8	$ 2,181.2	$ 2,195.1
Government securities	2,138.2	1,019.4	3,157.6	3,201.3
Corporate bonds and investment contracts	2,604.2	844.5	3,448.8	3,384.1
Canadian bonds	7.0	-	7.0	6.5
Convertible bonds	13.5	43.7	57.2	54.4
Preferred holdings	30.5	12.2	42.7	34.7
Equities	6,398.7	492.2	6,891.0	7,593.1
Mortgages	1,522.0	17.3	1,539.4	1,648.6
Mutual funds (401k)	-	7.8	7.8	7.8
Total	$14,759.7	$ 2,573.2	$17,332.9	$18,126.0

All of the State funds' investments fall into GASB's credit risk category #1, except for $1,250.5 million of prime commercial paper, which falls into category #2, and the mutual fund (401k) investments, which are not categorized. Additional detail regarding the carrying amount and market value of pension funds is provided in Note #12. Of the "Other State Funds," the largest holders of investments were the Municipal Employees' Retirement Fund (42%), the State Lottery Fund (15%), and the State Employees' Deferred Compensation I (457) Fund (27%).

Note 9 continued on next page.

The Municipal Employees' Retirement System Fund is classified as an expendable trust fund, rather than as a State pension fund, because the State has no obligation for this retirement system beyond acting as the investment fiduciary. Investments ($1,084.2 million) are diversified in a manner similar to the State's own pension funds.

The State Lottery Fund investments ($377.1 million) are all in the form of zero coupon U.S. Treasury bonds. As described more fully in Note #18, these investments are held to provide funding for deferred prize awards.

The State's section 457 deferred compensation plan investments ($693.2 million) are all in the form of guaranteed investment contracts with insurance companies and these are classified with "Corporate bonds and investment contracts" in the preceding table. Additional information on this plan and the section 401k deferred compensation plan is provided in Note #19.

C. Component Unit Deposits and Investments

The following information is derived from separately issued component unit financial reports:

State Building Authority (SBA)

Deposits - The carrying amount of the SBA's deposits at September 30, 1988 was $2.3 million. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $2.3 million. Of the bank's balance, $100,000 was covered by federal depository insurance coverage (GASB credit risk category #1) and $2.2 million was uninsured and uncollateralized (GASB credit risk category #3). Deposits generally total less than $100,000.

Investments - The State Treasurer, acting as agent, is authorized by the bond resolution to invest surplus monies of the SBA in direct obligations of the U.S. government, obligations unconditionally guaranteed by the U.S. government, certain commercial paper, and U.S. government repurchase agreements. The SBA's investments in U.S. government money market funds complies with the bond resolution.

The investments of the SBA at September 30, 1988 are summarized below (in millions):

	Carrying Amount	Market Value
Repurchase agreements	$ 81.0	$ 81.0
U.S. government securities	249.0	248.6
State and local government securities	.9	.9
U.S. government money market funds	.5	.5
Total Investments	$331.3	$330.9

All of the investments fall in GASB credit risk category #2, except for the U.S. government money market funds, which are not categorized.

Michigan State Housing Development Authority (MSHDA)

Statutes authorize MSHDA to invest, at its discretion, funds held in reserve or sinking funds, or monies not required for immediate use or disbursement, in obligations of the State or the U.S. government, in obligations the principal and interest of which are guaranteed by the State or U.S. government, or in other obligations as may be approved by the State Treasurer.

Included in cash and investments of the Authority are funds held in trust for mortgagors with a carrying value of $157.1 million at June 30, 1988.

Note 9 continued on next page.

Investments of the MSHDA, including deposits classified as investments on the balance sheet, at June 30, 1988 were as follows (in millions):

	GASB Category				Total Carrying Value	Market Value
	#1	#2	#3	Not Categorized		
Deposits:						
Certificates of deposit............	$121.9	$ –	$ –	$ –	$121.9	$121.9
Investments:						
Government securities...............	–	162.2	–	–	162.2	179.1
Insured mortgage backed securities.	–	106.3	–	–	106.3	105.3
Government backed securities.......	.9	6.6	92.2	–	99.8	101.0
Investment agreement...............	–	–	72.9	–	72.9	72.9
Government money market funds......	–	–	–	6.8	6.8	6.8
Repurchase agreements..............	–	13.9	–	–	13.9	13.9
Total Investments................	$122.9	$289.2	$165.1	$ 6.8	$584.2	$601.3

Certificates of deposit were entirely covered by federal depository insurance or required collateral held by the Authority's custodial banks in their fiduciary Federal Reserve accounts with the Authority identified as the secured party.

Government securities owned by the Authority are on deposit with the Authority's custodial banks. These banks hold these securities by book entry in their fiduciary Federal Reserve accounts for their trust departments. The Authority's ownership of these securities has been identified in the internal records of the banks. Insured mortgage backed securities are held by the Authority's custodial bank in a New York custodial account for the bank's trust department. These securities are registered in the bank's name with internal bank records identifying the Authority's ownership. Government backed securities are held by the custodial bank's trust department in the Authority's name ($6.7 million) and by broker/dealers in their street name for the Authority's account ($93.2 million). The Authority's unsecured investment agreement has been approved by the State Treasurer in compliance with State statutes. Repurchase agreements have been adequately supported by bank government securities deposited in the banks' fiduciary Federal Reserve accounts with the Authority identified as the buyer.

Michigan State Hospital Finance Authority (MSHFA)

Deposits - The carrying amount of the MSHFA's deposits at June 30, 1988 was $1.7 million and the bank balance was $1.4 million. The entire bank balance was covered by federal depository insurance, or collateral held with the Authority's agent in the Authority's name (GASB credit risk category #1).

Investments - Investments are restricted to obligations of the State or U.S. government, obligations the principal and interest of which are guaranteed by the State or U.S. government, or certificates of deposit of a bank which is a member of the Federal Reserve System or a savings and loan association which is a member of the Federal Home Loan Bank System. Certain other restrictions as to investments are contained in the bond resolution for each bond issue.

Through arrangement with the State Treasurer, acting as agent, the Authority is permitted to invest all cash which is available on a day-to-day basis. Uncashed drafts are classified as drafts outstanding, therefore, monies available for investment include both demand deposits and drafts outstanding. It is required by the bond resolutions that all money deposited with any depository (excluding deposits held by the State Treasurer) in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously secured to the extent permitted by law by obligations of the United States or of the State of a market value at all times equal to the amount of such excess deposit.

A portion of the Authority's investments is held in short-term repurchase agreements (that is, a purchase of securities with a simultaneous agreement to resell them in the future at the same price plus a contract rate of interest) with a bank. The Authority's policies for investment transactions involving repurchase agreements are substantially the same as those for all other investments. The U.S. Treasury notes underlying the repurchase agreements are held in a separate account on behalf of the Authority by the Detroit branch of the Federal Reserve Bank of Chicago. All repurchase agreements entered into by the Authority are collateralized by U.S. Treasury notes.

Note 9 continued on next page.

Investments of the MSHFA, including deposits classified as investments on the balance sheet, as of June 30, 1988 were as follows (in millions):

	Carrying Amount	Market Value
Deposits:		
Certificates of deposits	$ 48.8	$ 48.8
Investments:		
U.S. Treasury bills	33.1	33.1
U.S. Treasury notes	874.0	880.5
U.S. Treasury coupon strips	86.4	87.9
Certificates of indebtedness	18.8	18.8
Repurchase agreements secured by U.S. Treasury notes	126.9	126.9
Total	1,188.3	$1,196.3
Add deferred loss on sale of investments (see below)	9.5	
Total Investments	$1,197.9	

During fiscal year 1988, the Authority sold investments at a loss and replaced them with similar investments having higher yields. The loss has been deferred and is being amortized to expense over the life of the new investments using the interest method.

All securities were held by MSHFA's agents in the Authority's name (GASB credit risk category #1). All investments are committed for either future loans or long-term debt requirements.

Michigan Higher Education Assistance Authority (MHEAA)

Deposits - At September 30, 1988, the carrying amount of the MHEAA's cash deposits was $-0- and the bank's balance was $942,841. Of the bank's balance, $100,000 was covered by federal depository insurance (GASB credit risk category #1) and $842,841 was uninsured and uncollateralized (GASB credit risk category #3).

Investments - Investments of the MHEAA, including deposits classified as investments on the balance sheet, as of September 30, 1988 were as follows (in millions):

	Carrying Amount	Market Value
Deposits:		
Certificate of deposit	$ 3.0	$ 3.0
Investments:		
Money market funds - government securities	15.0	15.0
U.S. government securities	31.1	30.9
Total Investments	$49.1	$48.9

The certificates of deposit and U.S. government securities were held by the MHEAA's agents in the Authority's name (GASB credit risk category #1). The money market funds are not categorized.

Michigan Higher Education Student Loan Authority (MHESLA)

Deposits - At September 30, 1988, the carrying amount of the MHESLA's cash deposits was $781,407 and the bank's balance was $664,573. Of the bank's balance, $413,676 was covered by federal depository insurance (GASB credit risk category #1) and $250,897 was uninsured and uncollateralized (GASB credit risk category #3).

Note 9 continued on next page.

Investments - Investments of the MHESLA at September 30, 1988 were as follows (in millions):

	Carrying Amount	Market Value
Investment in money market funds - government securities	$ 5.8	$ 5.8
U.S. government securities	17.0	16.9
Total Investments	$22.8	$22.8

The U.S. government securities were registered and held by the Authority's agent in the Authority's name (GASB credit risk category #1).

Michigan Strategic Fund (MSF)

Deposits - The carrying amount of MSF's deposits at September 30, 1988 was $1,505,105. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $1,956,010. Of the bank's balance, $1,165,290 was covered by federal depository insurance (GASB credit risk category #1) and $790,720 was uninsured and uncollateralized (GASB credit risk category #3).

The MSF believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, it evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The MSF is authorized to invest surplus monies in direct obligations of the U.S. government, obligations unconditionally guaranteed by the U.S. government, certain commercial paper, and U.S. government repurchase agreements. Investments as of September 30, 1988 are summarized below (in millions):

	Carrying Amount	Market Value
U.S. government securities	$13.8	$13.8
Commercial paper	71.3	71.3
Bank cash management funds	4.9	4.9
Total Investments	$90.1	$90.1

All of the U.S. government security and commercial paper investments ($85.2 million) fall into the GASB's risk category #3. The bank cash management funds are not categorized. The investments in the funds comply with bond resolution requirements.

Mackinac Bridge Authority (MBA)

At September 30, 1988, the carrying amount of the MBA's deposits was $286,963 and the bank balance was $286,187. Of the bank balance, $149,216 was covered by federal depository insurance (GASB deposit risk category #1) and $136,971 was collateralized (GASB deposit risk category #2). The MBA is authorized to invest in obligations of the U.S. Treasury. At September 30, 1988, the carrying amount of U.S. Treasury bills was $11,233,246 and the market value was $11,438,412. These investments were uninsured, unregistered and held by the Bank's trust department's agent in the Authority's name (GASB risk category #2).

Mackinac Island State Park Commission (MISPC)

The carrying amount of MISPC investments at September 30, 1988 was $951,839. This included a $120,000 U.S. Treasury note which had a market value of $140,604 and falls into GASB credit risk category #2. Investments on the balance sheet also include certificates of deposit totaling $250,000, of which $200,000 is classified as GASB deposit risk category #1 and $50,000 in GASB deposit risk category #2. Treasury bills with a carrying value of $581,839 make up the balance and are classified in GASB risk category #2.

Note 9 continued on next page.

Michigan Unemployment Compensation Fund (MUCF)

Deposits - At September 30, 1988, the carrying amount of the MUCF's bank deposits was $(5,296,558), and the bank balance was $2,112,473. Of the bank balance, $271,369 was covered by federal depository insurance (GASB deposit risk category #1) and $1,841,104 was covered by collateral held in book entry securities by pledging custodial banks at a Federal Reserve Bank (GASB deposit risk category #2).

Investments - Investments ($1,154.8 million) represents the MUCF's interest, at cost (approximates market), in a U.S. Treasury trust fund managed by the Secretary of the Treasury pursuant to Title IX of the Social Security Act, which includes deposits from the unemployment compensation funds of various states. The trust fund is required by statute to invest only in obligations guaranteed by the U.S. government. The MUCF is credited quarterly with trust fund investment earnings only to the extent the Fund's equity in the trust fund exceeds the balance of outstanding advances (see Note #17) made to the MUCF, as computed on a daily basis.

NOTE 10 — MORTGAGES AND LOANS RECEIVABLE

Mortgages and loans receivable (in millions) reported in the enterprise fund group consist of the following:

	Mortgages and Loans Receivable (Gross)	Unamortized Discount	Allowance for Possible Losses	Mortgages and Loans Receivable (Net)
Michigan State Housing Development Authority	$1,618.5	$ (5.6)	$ (20.7)	$1,592.0
Michigan State Hospital Finance Authority	1,252.2	(33.0)	–	1,219.1
Michigan Higher Education Student Loan Authority	129.7	–	–	129.7
Michigan Higher Education Assistance Authority	3.7	–	(2.8)	.8
Michigan Strategic Fund	28.1	–	(12.0)	16.1
	$3,032.2	$ (38.7)	$ (35.6)	$2,957.9

The Michigan State Housing Development Authority had loan commitments outstanding at June 30, 1988 of $55.5 million. The Michigan Strategic Fund had loan commitments outstanding at September 30, 1988 of $4.7 million.

Mortgages are also held as investments by pension and expendable trust funds ($1.5 billion at book) and these are reflected in long-term investments.

NOTE 11 — PROPERTY, PLANT, AND EQUIPMENT

Proprietary Funds

Classification: The following table summarizes, by major class of asset, the recorded costs of fixed assets included in proprietary funds, as of September 30, 1988 (in millions):

Classification	Enterprise Funds	Internal Service Funds
Land	$ 8.1	$ -
Buildings and Equipment	56.7	135.8
Construction in Progress	-	.5
Total	64.9	136.3
Allowance for Depreciation	(34.7)	(48.5)
Net Property, Plant, and Equipment	$ 30.2	$ 87.8

Depreciation: Depreciation methods and useful life estimates used for buildings and equipment vary between the different funds and component units. The estimated service lives of the respective assets range from 5 to 60 years for buildings and 3 to 20 years for equipment. Several funds and component units in the proprietary and pension trust fund classes do not capitalize and depreciate their fixed assets if the assets are insignificant to their operations.

General Fixed Assets

Changes by Classification: The following table summarizes, by major class of asset, the changes in recorded costs for the General Fixed Assets Account Group (in millions). Increases and decreases in general fixed assets which resulted from fiscal year 1987-88 transactions are reflected in the additions and deletions columns. The adjustments and reclassifications column includes the reclassification of completed construction projects from construction in progress to land and buildings and various other adjustments.

Classification	Balance September 30, 1987	Additions	Deletions	Adjustments and reclassifications	Balance September 30, 1988
Land	$ 179.8	$ 3.6	$ -	$ (.7)	$ 182.6
Buildings	1,001.4	24.9	10.8	72.5	1,088.0
Equipment	377.9	58.7	15.8	(3.5)	417.3
Construction in Progress	90.0	151.3	-	(14.4)	226.9
Total General Fixed Assets	$1,649.3	$238.6	$26.6	$ 53.7	$1,914.9

Funding Source: The following summarizes the funding source of the investment in general fixed assets as of September 30, 1988 (in millions):

Fund	Investment
General Fund	$1,589.0
Special Revenue Funds:	
Transportation Related	140.4
Conservation and Recreation Related	34.2
Regulatory and Administrative Related	32.2
Mackinac Bridge Authority	1.3
Capital Projects Funds	117.5
Total Investment in General Fixed Assets	$1,914.9

Note 11 continued on next page.

Construction in Progress: The following summarizes the major types of projects included in construction in progress as of September 30, 1988 (in millions):

Type of Project	Estimated Cost	Authorized	Expended
Correctional facilities:			
New prisons	$604.4	$608.8	$122.5
Other	95.6	63.8	28.4
Other projects	136.8	150.2	75.9
Totals	$836.9	$823.0	$226.9

In addition to the projects noted above, the State has planned other construction projects which were unfunded as of September 30, 1988. The costs of these projects, as well as the unfunded portion of projects currently in progress, will be funded from future years' resources.

NOTE 12 — PENSION BENEFITS

The State of Michigan makes legally required contributions to the following pension plans. The contributions to the Public School Employees' Retirement System are non-employer contributions to a multiple-employer pension system. The contribution to all other systems are employer contributions to single-employer systems. Each system is accounted for in a separate fund:

Legislative Retirement System (LRS)
State Police Retirement System (SPRS)
State Employees' Retirement System (SERS)
Public School Employees' Retirement System (PSERS)
Probate Judges' Retirement System (PJRS)
Judges' Retirement System (JRS)

The Municipal Employees' Retirement System, a pension plan for employees of local governments in Michigan, is presented in the Expendable Trust Fund type. The State's function is administrative in nature, covering the receipt of municipal contributions and the payment of benefits. The State makes no contributions to the plan and has no legal or moral responsibility for funding current or future benefits.

For each plan described below, the Legislature establishes both the extent to which the employer and employees are required to make contributions and establishes the benefit provisions as indicated in the "Description of Plans." The Bureau of Retirement Systems issues more detailed financial reports for each of the plans.

DESCRIPTION OF PLANS

Legislative Retirement System - Plan membership - This plan covers substantially all State legislators with current active membership at 148, of which 70 members have vested deferred benefits. There are 166 retirees and beneficiaries receiving benefits, with an additional 33 terminated members who have vested deferred benefits. Plan benefits - Members may retire at age 55 with 8 or more years of credited service, or at 55 with specified combinations of full or partial terms of office. Deferred allowance can be vested after 8 years of credited service, with benefits beginning at age 55. The plan has provisions for disability allowances and death in service payments to beneficiaries. Post-retirement medical benefits - Retirants, survivors and deferred vested members are provided paid dental, vision, hearing, hospital and medical coverage. The benefits are funded on the pay-as-you-go basis, with the 1987-88 expense being $.7 million. Funding requirements - Members are required to contribute 9% of current compensation. The State's participation is based upon the level-percent-of-payroll method and is provided by the General Fund and a portion of court fees.

State Police Retirement System - Plan membership - This plan covers members of the Michigan State Police with current active membership at 2,213, of which 1,500 members have vested deferred benefits. There are 1,127 retirees and beneficiaries receiving benefits, with an additional 78 terminated members who have vested deferred benefits. Plan benefits - Members may retire with 25 years of service. Deferred benefits are vested after 10 years of service, with benefits beginning at age 50. The plan also provides for duty and non-duty disability retirement, as well as death benefits to beneficiaries. Post-retirement medical benefits - Health insurance coverage is provided for retirees at State expense on the pay-as-you-go basis, amounting to $2.5 million during 1987-88. Beginning in 1988-89, the State will fund the health insurance cost on a prefunding basis. Funding requirements - The system is non-contributory, with the State's contribution, determined by the level-percent-of-payroll method, provided by the General Fund.

Note 12 continued on next page.

State Employees' Retirement System - Plan membership - This system is a statewide pension plan covering all State employees who are not covered by other systems, with current active membership at 63,511, of which 33,535 members have vested deferred benefits. There are 23,008 retirees and beneficiaries receiving benefits, with an additional 811 terminated members who have vested deferred benefits. Plan benefits - A member may retire after attaining age 55 with 30 or more years of credited service, or after attaining age 60 with 10 or more years of credited service. Members eligible for supplemental benefits may retire at age 51 with 25 or more years of service, or at age 56 with 10 or more years of service. A member may retire early with a reduced retirement allowance after attaining age 55 with 15 or more years of credited service. Beginning April 1, 1988, a one year "80 and out" program provides regular retirement benefits to members having attained age 50, and whose age plus service is equal to 80 or more. The plan also has provisions for a vested deferred allowance after 10 years of service, as well as duty and non-duty disability and death-in-service provisions. A deferred retirement is available after 5 years of service for State employees occupying unclassified positions in the executive and legislative branches. Post-retirement medical benefits - Retirees have the option of continuing hospitalization and major medical coverage. The retiree pays 5% of health insurance premiums and the State pays 95% until age 65 when Medicare takes over and the State pays 100% of the remaining cost. Effective January 1, 1988, dental and vision coverage is available to retirees with 10% of the premium paid by the retiree. The employer's expense for this purpose in 1987-88 was $36.8 million. Beginning in 1988-89, the State will fund the health insurance cost on a prefunding basis. The employer also paid $2.9 million in life insurance proceeds under policies covering retirees, spouses and dependents. Funding requirements - The system became non-contributory in 1974. The State's contribution is determined based upon the level-percentage-of-payroll method. The majority of the plan's contributions are provided by the General and Special Revenue Funds.

Public School Employees' Retirement System - Plan membership - This system is a statewide pension plan covering all public education employees except those at six institutions of higher education and some employees of other institutions of higher education who elect coverage by another retirement program. Approximately 276,000 teaching and non-teaching employees are members of the system, with 118,000 members having vested deferred benefits. There are 76,111 retirees and beneficiaries receiving benefits, with an additional 9,163 terminated members who have deferred benefits. Plan benefits - P.A. 91 of 1985 provided for employees to make a one-time irrevocable decision to join a "member investment plan." This option requires employee contributions and provides for early retirement and more liberal retirement benefits. Under the normal plan, a member may retire after attaining age 55 with 30 or more years of service, or at age 60 with 10 or more years of service. An early retirement with reduced benefits is available at age 55 with 15 or more years of service. The plan provides for a deferred allowance with vesting after 10 years, duty and non-duty disability and death-in-service provisions. Post-retirement medical benefits - Retirees may, under P.A. 91, continue hospitalization and major medical coverage for themselves and an expanded category of beneficiaries. Retirees pay 10% of the health premium until medicare coverages begins at age 65. Public Act 91 also requires the State to fund the remaining cost on a prefunding basis (current year expense plus amortization of unfunded prior period costs). Funding requirements - The system became non-contributory in 1974 and remains so except for those employees electing the "member investment plan" option. The State's contribution is determined using the level-percent-of-payroll method. The majority of the plan's employer contributions are provided by the School Aid Fund and the local school district employers.

Probate Judges' Retirement System and Judges' Retirement System - Plan membership - Both are statewide plans which cover substantially all judges and probate judges in Michigan's judicial branch of government. The Probate Judges' Retirement System (PJRS) became a "closed" system on 1/1/83 with probate judges taking office after that date becoming members of the Judges' Retirement System (JRS). The JRS also includes the Governor, Lieutenant Governor, Secretary of State, Attorney General (all elected), Legislative Auditor General, and the Court Administrator. The JRS has current active membership of 518, of which 284 members have vested deferred benefits. There are 243 retirees and beneficiaries receiving benefits, with an additional 20 terminated members who have deferred benefits. The PJRS has current active membership of 56, of which 49 members have vested deferred benefits. There are 80 retirees and beneficiaries receiving benefits, with an additional 3 terminated members who have deferred benefits. Plan benefits - A member of either system may retire after attaining age 60 with 8 or more years of credited service, or at age 55 with 18 or more years of service. To retire at 55, members of the JRS must have 6 years of continuous service prior to retirement. Additionally, members of the JRS may retire at any age if credited with 25 years of service, six of which are continuous up to retirement. Both plans provide for deferred retirement with vesting after 8 years of credited service, as well as disability and death-in-service provisions. Post retirement medical benefits - Non-trial court judges and participating elected officials may choose to have hospitalization and major medical coverage continued, paying 10% of health insurance premiums until medicare coverage begins at age 65. The State's 90% funding of health insurance on the pay-as-you-go basis was a nominal amount because most judges participate in local unit plans. The State also provides for life insurance coverage for retirees, spouses, and children. Funding requirements - members of the JRS contribute between 3 1/2% - 7% of salary. Non-trial judges and elected state officials contribute 5% of salary. Members of the PJRS generally contribute 7% of salary. The State's employer contribution under both plans is based upon the level-percent-of-payroll method and is funded by the General Fund and a portion of court fees.

Note 12 continued on next page.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Market Value of Investments

The table below discloses the carrying value on the balance sheet and market value as of September 30, 1988 of each pension plan's investments. All amounts are in millions.

Systems	Investments Carrying Value	Market Value
Legislative Retirement System	$ 46.5	$ 47.4
State Police Retirement System	345.0	359.7
State Employees' Retirement System	3,314.6	3,473.0
Public School Employees' Retirement System	10,940.9	11,477.8
Probate Judges' Retirement System	15.0	15.7
Judges' Retirement System	97.8	101.8

Asset Valuation - The assets of the pension systems are valued differently for determination of the unfunded pension obligation than for balance sheet purposes (cost). For determining the unfunded pension obligation, the assets of the SERS, PSERS, PJRS, and the JRS systems are valued at the September 30, 1986 market value adjusted by 20% of the unrealized gains or losses since that date. The assets of the LRS and SPRS systems are valued at their September 30, 1987 market value adjusted by 20% of the unrealized gains or losses since that date.

Other Investment Information - No investment in any of the pension plans comprises 5% or more of the net assets available for benefits except that in the Legislative Retirement System an investment contract with a single insurance company amounted to $6.5 million or 14% of its total investments. There are no significant investments made in securities issued by the State, nor are there any loans made from the pension plan to the State. Additional disclosures on investments are provided in Note #9 and on State Treasurer's Common Cash in Note #5.

FUNDING STATUS AND PROGRESS

Pension Benefit Obligation

The Pension Benefit Obligation is the actuarial present value of credited projected benefits. It measures the present value of pension benefits, adjusted for projected salary and step increases, estimated to be payable in the future as a result of employee service rendered to date. The pension benefit obligation, net assets available for benefits, and unfunded pension obligation are provided to assist readers in assessing funding status on a going-concern basis, assess progress in accumulating assets sufficient to pay benefits when due, and to allow for comparison of the State of Michigan's pension plans with each other and with those of other governmental units.

Historical Trend Information

GASB Statement #5 requires the disclosure of certain ten year historical trend information. To the extent available, this information is presented in the statistical section of this report.

Actuarial Cost Methods and Assumptions

Cost methods - All systems use the "entry age" method which allocates a higher percent of the total cost to past service cost ("unfunded actuarial accrued liabilities") and a lower percent to current service costs ("normal cost") than does the "attained age" method. The SPRS's death and disability benefits are funded using a one-year terminal funding method.

Note 12 continued on next page.

The following assumptions were used in the actuarial valuations:

System	Rate of return – Investment of Current and Future Assets	Projected Salary Increases		
		Merit	Seniority	Inflation
	% Compounded Annually	%	%	%
LRS	7.0%	–	–	4.0
SPRS	8.5	(	Combined 6.5	)
SERS	11.6*	(Combined 0.2–5.8)		5.0
PSERS	8.0**	(Combined 0.1–3.5)		5.0
PJRS & JRS	8.0	(Combined 0.5)		6.5

*Graded to 8% over 9 years
**Pre-1987 retirants and beneficiaries computed at 11.8%

Pre- and post-retirement life expectancies of participants in all systems are based upon the 1971 Group Annuity Mortality Table. Also considered in the valuations were the rates of non-death withdrawal from active service before retirement, rates of disability, and expected retirement ages. There were no material changes in actuarial assumptions during 1987-88 except those explained below.

Changes and Their Effect on the Unfunded Pension Benefit Obligation

Benefit provisions - There were no material changes in benefit provisions for any system except the LRS. It now provides life insurance benefits which increased the pension benefit obligation by $1.1 million.

Actuarial assumptions - The LRS reduced the projected salary increases attributable to merit and seniority from .05% to .0% which reduced the pension benefit obligation by $.6 million. The SPRS reduced the projected salary increases from 7% to 6.5% which reduced the pension benefit obligation by $5.8 million.

The statutes governing the SERS and the PSERS provide for one or more additional distributions to retirees and retirement allowance beneficiaries on record at the end of each fiscal year if the earnings on plan assets exceed a computed standard. The amount of such liability in each fund is based upon earnings on assets that exceed an 8% return. The September 30, 1988 liability in the SERS and in the PSERS was immaterial and thus will be distributed and charged to expenses in 1988-89.

Date of actuarial valuation - Valuations for all systems except the SPRS are as of 9/30/88. In the PSERS, the pension benefit obligation was based upon an actuarial update using estimation methods rather than a complete actuarial valuation. This was required because the PSERS records could not be modified to accommodate the "Member Investment Plan" in time to be used for the actuarial valuations needed for disclosure. In the SPRS, September 30, 1987 valuation date has been used.

Note 12 continued on next page.

Pension Benefit Obligation, Net Assets Available for Benefits, and Unfunded Pension Obligation

(Dollar amounts are in millions)	September 30, 1988		September 30, 1987		September 30, 1986	
Legislative Retirement System	Active Dollar Amount	% of Annual Member Payroll	Active Dollar Amount	% of Annual Member Payroll	Active Dollar Amount	% of Annual Member Payroll
Pension benefit obligation – noncurrent employees:						
Current retirants and beneficiaries.	$ 28.8	479%	$ 26.1	452%	$ 21.5	392%
Terminated vested participants......	6.4	105	8.0	139	6.5	119
Total............................	$ 35.2	584%	$ 34.1	591%	$ 28.0	511%
Pension benefit obligation – current employees:						
Member contributions................	$ 3.0	50%	$ 2.5	43%	$ 2.1	38%
Employer financed vested............	17.5	290	13.7	238	*	*
Employer financed nonvested.........	1.4	23	2.6	45	*	*
Total employer financed..........	18.8	313	16.3	283	14.6	266
Total............................	$ 21.9	363%	$ 18.8	326%	$ 16.7	304%
Pension benefit obligation............	$ 57.1	947%	$ 53.0	917%	$ 44.8	815%
Net assets (at cost) available for benefits..........................	$ 51.5		$ 49.4		$ 43.4	
Asset valuation adjustment..........	1.0		1.0		–	
Valuation assets......................	$ 52.6		$ 50.4		$ 43.4	
Unfunded pension benefit obligation:						
Assets at balance sheet value (cost)	$ 5.5		$ 3.6		$ 1.4	
Assets at valuation values..........	$ 4.5		$ 2.6		$ 1.4	

*Information not available.

(Dollar amounts are in millions)	September 30, 1988		September 30, 1987		September 30, 1986	
State Police Retirement System	Active Dollar Amount	% of Annual Member Payroll	Active Dollar Amount	% of Annual Member Payroll	Active Dollar Amount	% of Annual Member Payroll
Pension benefit obligation – noncurrent employees:						
Current retirants and beneficiaries.	$ 161.8	196%	$ 147.9	191%	$ 116.8	157%
Terminated vested participants......	5.0	6	4.3	6	2.8	4
Total............................	$ 166.8	202%	$ 152.2	197%	$ 119.6	161%
Pension benefit obligation – current employees:						
Member contributions................	$ 4.3	5%	$ 4.4	6%	$ 5.1	7%
Employer financed vested............	234.5	285	222.8	287	*	*
Employer financed nonvested.........	29.2	35	35.9	46	*	*
Total employer financed..........	263.7	320	258.7	334	243.2	328
Total............................	$ 268.1	325%	$ 263.1	339%	$ 248.3	335%
Pension benefit obligation............	$ 434.9	528%	$ 415.3	536%	$ 367.9	496%
Net assets (at cost) available for benefits..........................	$ 351.3		$ 326.2		$ 276.7	
Asset valuation adjustment..........	42.3		49.3		–	
Valuation assets......................	$ 393.6		$ 375.5		$ 276.7	
Unfunded pension benefit obligation:						
Assets at balance sheet value (cost)	$ 83.6		$ 89.1		$ 91.2	
Assets at valuation values..........	$ 41.3		$ 39.8		$ 91.2	

*Information not available.

Note 12 continued on next page.

(Dollar amounts are in millions)	September 30, 1988		September 30, 1987		September 30, 1986	
State Employees' Retirement System	Active Dollar Amount	% of Annual Member Payroll	Active Dollar Amount	% of Annual Member Payroll	Active Dollar Amount	% of Annual Member Payroll
Pension benefit obligation – noncurrent employees:						
Current retirants and beneficiaries.	$ 1,388.1	72%	$ 1,215.6	65%	$ 978.1	56%
Terminated vested participants......	18.5	1	18.9	1	16.4	1
Total...........................	$ 1,406.6	73%	$ 1,234.5	66%	$ 994.5	57%
Pension benefit obligation – current employees:						
Member contributions................	$ 88.8	5%	$ 82.5	5%	$ 94.6	5%
Employer financed vested............	1,641.1	85	1,471.5	79	*	*
Employer financed nonvested.........	250.2	13	300.1	16	*	*
Total employer financed..........	1,891.4	98	1,771.6	95	1,674.9	97
Total...........................	$ 1,980.2	103%	$ 1,854.1	100%	$ 1,769.5	102%
Pension benefit obligation............	$ 3,386.8	176%	$ 3,088.6	166%	$ 2,764.1	159%
Net assets (at cost) available for benefits..........................	$ 3,383.2		$ 3,105.2		$ 2,668.6	
Asset valuation adjustment..........	279.5		297.7		249.4	
Valuation assets......................	$ 3,662.7		$ 3,402.9		$ 2,918.0	
Unfunded pension benefit obligation:						
Assets at balance sheet value (cost)	$ 3.6		$ (16.6)		$ 95.5	
Assets at valuation values..........	$ (275.9)		$ (314.3)		$ (154.0)	

*Information not available.

(Dollar amounts are in millions)	September 30, 1988		September 30, 1987		September 30, 1986	
Public School Employees' Retirement System	Dollar Amount	% of Annual Active Member Payroll	Dollar Amount	% of Annual Active Member Payroll	Dollar Amount	% of Annual Active Member Payroll
Pension benefit obligation noncurrent employees:						
Current retirants and beneficiaries.	$ 5,426.1	103%	$ 4,818.6	102%	$ 4,124.6	90%
Terminated vested participants......	153.4	3	137.9	3	125.1	3
Total...........................	$ 5,579.5	106%	$ 4,956.4	105%	$ 4,249.7	93%
Pension benefit obligation current employees:						
Member contributions................	$ 873.9	16%	$ 735.1	16%	$ 655.3	15%
Employer financed vested............	7,627.9	145	6,800.4	143	*	*
Employer financed nonvested.........	597.8	11	529.9	11	*	*
Total employer financed..........	8,225.8	156	7,330.3	154	5,620.6	123
Total...........................	$ 9,099.6	172%	$ 8,065.5	170%	$ 6,275.9	138%
Pension benefit obligation............	$14,679.1	278%	$13,021.9	275%	$10,525.6	231%
Net assets (at cost) available for benefits..........................	$11,142.3		$10,178.5		$ 8,890.6	
Asset valuation adjustment..........	941.4		1,002.5		842.2	
Valuation assets......................	$12,083.7		$11,181.0		$ 9,732.8	
Unfunded pension benefit obligation:						
Assets at balance sheet value (cost)	$ 3,536.8		$ 2,843.4		$ 1,635.0	
Assets at valuation values..........	$ 2,595.4		$ 1,840.8		$ 792.8	

*Information not available.

Note 12 continued on next page.

(Dollar amounts are in millions)	September 30, 1988		September 30, 1987		September 30, 1986	
Probate Judges' Retirement System	Member Amount	% of Annual Active Dollar Payroll	Member Amount	% of Annual Active Dollar Payroll	Member Amount	% of Annual Active Payroll
Pension benefit obligation – noncurrent employees:						
Current retirants and beneficiaries.	$ 10.1	228%	$ 9.1	195%	$ 8.8	210%
Terminated vested participants......	.4	9	.1	2	.2	6
Total	$ 10.5	237%	$ 9.2	197%	$ 9.0	216%
Pension benefit obligation – current employees:						
Member contributions	$ 1.6	36%	$ 1.5	31%	$ 1.3	32%
Employer financed vested	8.4	190	8.9	192	*	*
Employer financed nonvested	.5	11	.4	8	*	*
Total employer financed	9.0	201	9.3	200	7.3	175
Total	$ 10.5	237%	$ 10.8	231%	$ 8.6	207%
Pension benefit obligation	$ 21.1	474%	$ 19.9	428%	$ 17.6	423%
Net assets (at cost) available for benefits	$ 15.8		$ 15.0		$ 13.2	
Asset valuation adjustment	1.3		1.4		1.1	
Valuation assets	$ 17.1		$ 16.4		$ 14.2	
Unfunded pension benefit obligation:						
Assets at balance sheet value (cost)	$ 5.3		$ 4.9		$ 4.4	
Assets at valuation values	$ 4.0		$ 3.5		$ 3.4	

*Information not available.

(Dollar amounts are in millions)	September 30, 1988		September 30, 1987		September 30, 1986	
Judges' Retirement System	Member Amount	% of Annual Active Dollar Payroll	Member Amount	% of Annual Active Dollar Payroll	Member Amount	% of Annual Active Dollar Payroll
Pension benefit obligation – noncurrent employees:						
Current retirants and beneficiaries.	$ 46.4	133%	$ 43.3	133%	$ 35.9	129%
Terminated vested participants......	2.1	6	2.3	7	1.7	6
Total	$ 48.6	139%	$ 45.6	140%	$ 37.6	135%
Pension benefit obligation – current employees:						
Member contributions	$ 15.8	45%	$ 12.2	38%	$ 11.1	40%
Employer financed vested	49.8	142	47.5	146	*	*
Employer financed nonvested	9.9	28	7.6	23	*	*
Total employer financed	59.7	170	55.0	169	44.6	160
Total	$ 75.5	215%	$ 67.3	207%	$ 55.7	200%
Pension benefit obligation	$ 124.1	354%	$ 112.9	347%	$ 93.3	335%
Net assets (at cost) available for benefits	$ 100.4		$ 90.2		$ 75.5	
Asset valuation adjustment	7.5		8.0		6.6	
Valuation assets	$ 107.9		$ 98.2		$ 82.1	
Unfunded pension benefit obligation:						
Assets at balance sheet value (cost)	$ 23.7		$ 22.7		$ 17.8	
Assets at valuation values	$ 16.2		$ 14.6		$ 11.2	

*Information not available.

Note 12 continued on next page.

CONTRIBUTIONS

GAAP Funding Requirements and Contributions Actually Made - The actuarially computed contributions required to fund normal costs and to amortize unfunded liabilities are shown compared to the actual funding provided (amounts in millions):

		Employer Contribution			
		Required		Actual	
System	Active Member Payroll	%	Amount	%	Amount
LRS	$ 5.9	32.97%	$ 2.0	31.83%	$ 1.9
SPRS	82.3	19.90	16.4	17.10	14.1
SERS	1,945.7	7.82	152.2	8.31	161.7
PSERS	5,274.2	7.45	392.9	9.66	509.4
PJRS	4.5	17.23	.8	16.63	.7
JRS	34.1	17.37	5.9	17.56	6.0

Changes and their Effect on Required Contributions

Actuarial valuation - Prior to 1986-87, the valuation date for all systems was September 30 of the second preceding year. Beginning in 1986-87, PSERS and SERS used the most recent valuations (the prior September 30) to determine required contributions. In 1987-88, the PJRS, JRS and the LRS adopted this policy. This change had a negligible effect on the GAAP required contributions for 1987-88.

Statutory Funding Requirements -
Actual contributions met or exceeded the contributions required by state law except for a deficiency of $.1 million in the LRS and $2.3 million in the SPRS.

NOTE 13 — EARLY RETIREMENT PLAN

Public Act 3 of 1984 provided for an early retirement incentive program that was available to approximately 3,800 eligible employees in 1984 and 1,964 employees retired under the program. In addition to the basic monthly retirement benefits for which the "80 and out" retirees were eligible, they receive a monthly pension supplement ranging from $240 to $360 until age 62. Accumulated sick leave balances, which are normally paid in a lump sum at retirement, are being spread in equal installments over 60 months. Payments to early retirees are made through the State Employees' Retirement Fund, which is reimbursed for the additional costs through a combination of increases in the pension funding rates and billings for the sick leave payments made.

The present value of future benefits to be paid under this plan, including basic benefits through age 60, is recorded in the State's General Long-Term Obligations Account Group using a discount rate of 8%. Fund expenditures are recognized as the payments become due.

The following payments are required by fiscal year (in thousands):

	Gross Liability	Present Value
1988-89	$13,252	$12,743
1989-90	8,671	7,709
1990-91	6,160	5,063
1991-92	4,153	3,156
1992-93	2,372	1,667
1993-1996	1,542	974
Total	$36,153	$31,313

NOTE 14 — COMPENSATED ABSENCES

Plan Descriptions: Employees receive a 100% termination payment of unused annual leave (vacation time) upon separation from State service based upon the employee's final rate of pay. In certain cases, employees who transfer between State agencies also receive payment for unused annual leave credits. The maximum amount of leave that employees can accumulate varies with seniority, generally ranging between 240 and 300 hours.

Termination payments for accumulated sick leave balances are made only upon separation from State service and only to employees hired prior to October 1, 1980. Payments at retirement or death are based on 50% of the employee's sick leave accumulation times their last rate of pay. When separating for any other reason employees are paid a percentage of their unused sick leave which increases from 0 to 50% depending upon the balance of their sick leave hours. There is no restriction on the amount of sick leave that can be accumulated.

Accounting Policy: The State has accrued liabilities for compensated absences as required by the GASB. Annual leave is valued at 100% of the unused balance plus the State's share of social security and retirement contributions. Sick leave is valued, as explained above, at 0 to 50% plus the State's share of social security contributions. The pay rates in effect as of October 1, 1988 are used in these valuations. Liabilities related to proprietary fund types are recorded in the funds. Liabilities related to governmental fund types are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. The balance of the governmental fund liabilities are recorded in the General Long-Term Obligations Account Group.

The following table summarizes compensated absences liabilities as of September 30, 1988 (in millions):

FUND GROUP	ANNUAL	SICK	TOTAL
Enterprise..................................	$ 2.7	$ 4.1	$ 6.8
Internal Service..........................	1.2	1.6	2.8
General Long-Term Obligations.............	149.0	190.4	339.5
	$152.9	$196.2	$349.2

NOTE 15 — GENERAL LONG-TERM OBLIGATIONS

A. Bonded Debt

General Obligation Debt

Article 9, Section 15 of the 1963 State Constitution authorizes general obligation long-term borrowing, subject to approval by the Legislature and a majority of voters at a general election. In addition, debt may be incurred without voter approval for the purpose of providing loans to school districts. General Fund appropriations are made to finance debt principal and interest requirements for all general obligation issues except School Loan Bonds, where only the excess of requirements over loan repayments is provided. General obligation bonds are backed by the full faith and credit of the State.

Revenue Dedicated Debt

State Funds - Long-term bonds have been issued periodically for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The State's general credit does not support such issues.

State Building Authority - Revenue bonds have been issued by the State Building Authority to acquire and/or construct various facilities for use by the State or institutions of higher education. These bonds are obligations of the authority and do not constitute direct general obligations of the State. The debt requirements of the bonds are financed through General Fund appropriations, excess bond proceeds, and investment earnings.

Note #18 provides disclosures regarding the long-term debts of the funds and component units in the enterprise fund type.

Note 15 continued on next page.

General obligation and revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30, 1988 (expressed in millions) are as follows:

			MATURITIES		
GENERAL OBLIGATION DEBT (1)	AMOUNTS ISSUED	OUTSTANDING 9/30/88	FIRST YEAR	LAST YEAR	AVERAGE INTEREST RATE PERCENTAGE
School Loan Bonds:					
Series IV	$ 20.0	$ 2.7	1980	1989	4.60
Series V	14.0	4.0	1986	1989	9.83
Series VI	7.5	7.5	1988	1995	5.92
1988 Bond Anticipation Notes	.3	.3	1988	1988	5.15
Water Pollution:					
Series II	15.0	2.0	1980	1990	5.99
Series III	50.0	22.0	1979	1999	4.43
Series IV	80.0	22.0	1973	1999	4.34
Series VI	70.0	16.0	1974	1998	4.56
Series VII	50.0	13.0	1975	1993	4.34
Series VIII	33.0	29.0	1987	1994	9.15
Public Recreation:					
Series V	11.0	1.0	1979	1989	4.60
Vietnam Veteran Bonus Series I-III	190.0	10.0	1976	1989	5.23
TOTAL GENERAL OBLIGATION DEBT	540.8	129.5			
REVENUE DEDICATED DEBT					
State Funds:					
State Park Revenue Bonds Series I-VIII	19.1	7.5	1963	1996	5.78
Tax Dedicated Bonds:					
Michigan Comprehensive Transportation:					
Series 1985 (Series B Refunding)	57.8	25.2	1985	2011	8.53(2)
Series 1986 (Refunding)	103.5	95.4	1986	2014	7.65
Series 1988 (Series I and II Refunding)	105.1	105.1	1998	2011	7.30
State Trunkline Fund Bonds:					
Series 1983	135.0	46.7	1987	1995	9.65
Series 1984	50.0	21.6	1987	1995	9.53
Series 1986 (Refunding)	105.6	103.6	1987	1999	7.34
TOTAL REVENUE DEDICATED DEBT - STATE FUNDS	576.1	405.3			
State Building Authority:					
1979 Revenue Bonds - Series I	89.4	64.0	1982	1999	6.36
1982 Revenue Bonds - Series II	21.0	15.1	1983	1995	8.46
1984 Revenue Bonds - Series I	104.9	100.4	1987	2001	9.38
1985 Revenue Bonds - Series I	4.3	3.1	1986	1996	6.52(3)
1986 Revenue Bonds - Refunding Series I	271.0	258.0	1987	2004	7.03
1986 Revenue Bonds - Refunding Series II	39.7	39.7	1990	2001	6.84
1986 Revenue Bonds - Refunding Series III	105.3	90.3	1987	1999	6.43
1987 Revenue Bonds - Series I	77.3	77.1	1988	2001	5.52
1987 Revenue Bonds - Series II	101.3	96.4	1988	2001	6.70
1988 Revenue Bonds - Series I	78.7	78.7	1989	2004	6.35
1988 Revenue Bonds - Series II	83.7	83.7	1990	2003	5.84
TOTAL STATE BUILDING AUTHORITY DEBT	976.8	906.9			
TOTAL REVENUE DEDICATED DEBT	1,552.9	1,312.3			
TOTAL GENERAL OBLIGATION AND REVENUE DEDICATED DEBT	$2,093.7	$1,441.8			

(1) As explained more fully in Note #28, additional general obligation bonds totalling up to $800 million were authorized by the voters on November 8, 1988, and additional school loan notes totalling $1.5 million were issued on October 31, 1988. Part of the $1.5 million of the new notes was used to pay the 1988 bond anticipation notes.

Note 15 continued on next page.

(2) The Series 1985 Michigan Comprehensive Transportation tax dedicated bond issue included capital appreciation bonds ("zero coupon") with an ultimate maturity value of $68.2 million. These bonds are recorded in the amount of $10.0 million, which was the present value at the time of their issue. These bonds mature in the years from 1995 to 2011. The funding for the debt service on these bonds will be provided as they mature. Accrued interest payable on the debt is not recorded as a liability and interest expenditures will be recorded as the bonds are redeemed.

(3) The interest rate for the State Building Authority's 1985 Revenue Bonds is a variable rate calculated as 85 percent of "Bond Buyer Index for 11 General Obligation Bonds" set each December 15 and June 15 for the succeeding six-month periods January 1 to June 30 and July 1 to December 31, respectively. At September 30, 1988, the effective interest rate is 6.52%.

Advance Refundings and Defeasances

The State has defeased certain revenue dedicated bonds by placing the proceeds of new bonds (i.e., the "refunding" bonds in the preceding table) in irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not recorded as assets or liabilities in these statements and are not included in the other debt tables in this note.

The following table summarizes the defeased bonds outstanding at September 30, 1988 (in millions):

Amount outstanding	
Michigan Comprehensive Transportation:	
Series 1979 A	$ 12.2
Series 1981 B	45.8
Series 1984	57.9
Series 1985 (partial)	25.1
Total	$141.1
State Trunkline Fund Bonds:	
Series 1983	$ 66.4
Series 1984	20.4
Total	$ 86.9
State Building Authority:	
1982 Series I	$ 87.5
1982 Series III	236.0
Total	$323.6

During this fiscal year, the State issued $105.1 million of Michigan Comprehensive Transportation refunding bonds, which were used to defease $25.2 million of Series 1985 bonds and $70.8 million of Series 1979 A bonds. The average interest rate on the new bonds is 7.30% and the average interest rate on the defeased debt was 8.53% for the Series 1985 bonds and 8.09% for the Series 1979 A bonds.

The net proceeds of the new bonds ($103.4 million after payment of $1.7 million in underwriting fees, insurance, and other issuance costs) were used to purchase U.S government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1979 A bonds and a portion of the 1985 bonds. As a result, the affected bonds are now considered defeased.

The State advance refunded these bonds to reduce its debt service requirements over the next 23 years by $4.6 million and to achieve an economic gain (difference between the present value of the old and new debt service payments) of $3.6 million.

Note 15 continued on next page.

Debt Service Requirements

The following table summarizes debt service requirements for outstanding bonds and bond anticipation notes (in millions):

	STATE FUNDS					STATE BUILDING AUTHORITY	
	GENERAL OBLIGATION		REVENUE DEDICATED		TOTAL PRINCIPAL AND INTEREST		
FISCAL YEARS ENDING	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST		PRINCIPAL	INTEREST
1989	$ 26.5	$ 6.6	$ 14.8	$ 28.6	$ 76.6	$ 36.7	$ 58.3
1990	19.0	4.9	15.6	27.4	67.0	48.0	58.8
1991	14.0	3.9	16.8	26.0	60.8	55.7	55.7
1992	14.0	3.1	18.6	24.4	60.3	61.2	51.9
1993	14.0	2.3	20.0	22.7	59.1	65.8	47.7
1994-2015	42.0	3.2	319.3	221.1	585.7	639.5	247.1
Total	$129.5	$ 24.3	$405.3	$350.5	$909.8	$906.9	$519.5

Interest to maturity for the State Building Authority will be significantly smaller than the amount shown in the above table because the bonds are callable and most of the bonds will be called prior to the final scheduled maturity date. The retirement of these bonds varies from project to project, as each bond issue is related to a specific project and any excess borrowing and accrued investment earnings are restricted to that project and debt service on the related bonds. State Building Authority debt service fund unreserved fund balances totaled $222.1 million at year-end. Most of this represents investments related to completed projects that will be used for debt service on the projects' bonds.

Some of the bonds of the State Building Authority carry variable interest rates and interest on these has been projected using an average interest rate.

B. Other General Long-Term Obligations

Capital Leases - Capitalized lease liabilities are described in more detail in Note #16. The leases are attributable to operations of the General Fund and two special revenue funds (the State Trunkline Fund and Michigan Employment Security Act - Administration Fund).

Unemployment Compensation Borrowing Interest Liability and Compensated Absences - Details regarding these are provided in Note #17 and #14, respectively.

Claims and Judgments - The liability recorded for claims and judgments includes projected amounts payable for workers' compensation claims and an allowance for litigation losses and federal grant disallowances. The gross amount of workers' compensation liability ($82.1 million) has been discounted and recorded at discounted present value ($58.1 million).

The allowance for estimated liability for litigation losses and federal grant disallowances ($176.0 million) includes projections for highway related negligence cases based upon historical loss ratios. It also includes amounts for other litigation or federal disallowance claims where it is considered more than a reasonable possibility that a loss may be incurred. Where a range of potential loss exists, the amount recorded is based upon the expected minimum amount that will be lost if the State does, indeed, lose. It should be stressed, however, that the State continues to vigorously contest all of these claims and that the State may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses and federal grant disallowances may be overstated (to the extent that losses do not occur) or understated (if the State losses exceed the projected minimums which have been recorded). The maximum potential loss on the allowance for estimated litigation losses and federal grant disallowances is not considered reasonably measurable.

Fund expenditures for workers' compensation and settled law suits with long-term repayment provisions are recognized on the "due and payable" basis. Other losses are recognized as fund liabilities in the year of settlement, except that cases settled shortly after year-end are recognized as fund liabilities using a sliding materiality scale that increases from recognizing all losses in early October to recording only settlements in excess of $1.5 million after November 30.

Note 15 continued on next page.

Early Retirement Benefits - The State's early retirement program is described in Note #13.

Unrecorded Limited Obligation Debt - Certain State financing authorities have issued limited obligation revenue bonds which are not recorded as liabilities in these statements because the borrowings are, in substance, debts of other entities. Typically, these borrowings are repayable only from the repayment of loans, unloaned proceeds and related interest earnings, and any collateral which may be provided.

The Michigan Higher Education Facilities Authority (MHEFA) issues limited obligation bonds to finance loans to private nonprofit institutions of higher education for capital improvements. As of September 30, 1988, the MHEFA had bonds outstanding of $62.4 million. The Michigan Family Farm Development Authority (MFFDA) issues these types of bonds to foster the development of new farm operations. As of September 30, 1988, the MFFDA had bonds outstanding of $4.5 million.

The Michigan Municipal Bond Authority (MMBA) was created in 1985-86 to assist local units of government in reducing their short-term and long-term financing costs. The MMBA pools the borrowing needs of various units and issues limited obligation debt. The debt is later converted to local unit obligations or the proceeds are used to make loans to local units. Any unloaned proceeds or investments, as well as loan repayments by the local units, related to these borrowings are placed with outside trustees. Repayments on the borrowings of the MMBA will be made only from local unit loan repayments, unloaned proceeds and related investment earnings, or future revenues of the local units which may have been pledged as backing for their individual borrowings. Pledged revenues of the local units can include revenues from State sources, including distributions of State shared revenues, as well as other local sources such as property taxes. During 1987-88, the MMBA issued $243.9 million of short-term notes and $1,068.6 million of bonds. The unloaned amounts with trustees at September 30, 1988 was $130.4 million; loans outstanding to the local units total $526.5 million.

C. Changes in General Long-Term Obligations

Changes in general long-term obligations (in millions) for the year ended September 30, 1988 are summarized as follows:

	GENERAL OBLIGATION DEBT	REVENUE DEDICATED DEBT - STATE FUNDS	REVENUE DEDICATED DEBT - STATE BUILDING AUTHORITY	CAPITAL LEASE OBLIGATIONS
Bonds and Capital Lease Obligations:				
Balance - Beginning	$157.7	$412.2	$778.8	$ 74.8
Adjustments to beginning balance	-	-	-	26.7
New bond issues/bond anticipation notes	.3	105.1	162.4	-
Capital lease additions	-	-	-	26.4
Bond principal retirements/capital lease payments and deletions	(28.5)	(112.0)	(34.3)	(26.9)
Balance - Ending	$129.5	$405.3	$906.9	$101.1

	UNEMPLOYMENT COMPENSATION DEFERRED INTEREST	COMPENSATED ABSENCES LIABILITIES	CLAIMS AND JUDGMENTS	EARLY RETIREMENT BENEFITS
Other obligations:				
Balance - Beginning	$ 15.1	$329.0	$182.3	$ 45.5
Net increase (decrease) in estimated liabilities	-	10.4	55.9	(14.2)
Elimination of portion of settled judgments	-	-	(4.0)	-
Payments on deferred interest	(12.8)	-	-	-
Balance - Ending	$ 2.3	$339.5	$234.2	$ 31.3

NOTE 16 — LEASES

The State leases various assets under noncancelable leasing arrangements. Leases which constitute rental agreements are classified as "operating" leases and the resulting expenditures are recognized as incurred over the lease term. Leases which are, in substance, purchases are classified as "capital" leases and the resulting assets and liabilities are recorded at lease inception. For capital leases in governmental funds, "other financing sources" and "expenditures" are also recorded at lease inception. Then, subsequent lease payments are recorded as "debt service" expenditures. (As explained in Note #3, for budgetary purposes lease payments are only reported as expenditures when paid.)

Most leases have cancellation clauses with 1-6 month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote.

Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered almost certain that the option will be exercised. Some lease agreements include escalation clauses or other contingent rentals. Escalation clauses and contingent rentals are not considered in determining minimum lease payments.

The State has entered into a few installment purchase agreements. Because the amounts involved are immaterial, and the accounting treatment is similar, such agreements are reported together with capital leases.

Governmental Fund Types

Rental expenditures incurred under operating leases totalled $23.2 million during fiscal year 1987-88. Payments for capital lease principal and interest totalled $25.4 million and $9.7 million, respectively.

A summary of the noncancelable operating and capital leasing commitments to maturity follows (in millions):

Year Ended September 30	Operating Leases	Capital Leases		
		Principal	Interest	Total
1989	$21.3	$ 24.5	$ 9.1	$ 33.7
1990	17.1	18.2	7.0	25.3
1991	11.5	12.9	5.7	18.6
1992	7.0	6.7	4.7	11.4
1993	2.9	4.7	4.0	8.8
1994-1998	4.6	19.2	12.8	32.0
1999-2003	.2	10.4	5.1	15.6
2004-2009	.1	4.2	.8	5.0
Total	$65.0	$101.1	$49.6	$150.7

All of the above capital leases are related to governmental fund operations and the total $101.1 million of capital lease principal is recorded as part of the General Long-Term Obligations Account Group.

The historical cost of assets acquired under capital leases included in the General Fixed Assets Account Group at September 30, 1988 follows (in millions):

Buildings..............	$104.9
Equipment..............	59.5
Total................	$164.4

Proprietary Fund Types

Rental expense incurred under operating leases totalled $2.5 million during fiscal year 1987-88.

Noncancelable operating lease commitments to maturity total $7.9 million and extend through fiscal year 1997-98. Capital lease commitments, including imputed interest, total $13.6 million and extend through fiscal year 1997-98.

All capital leases are for buildings and equipment related to Liquor Purchase Revolving Fund (enterprise), State Lottery Fund (enterprise), Office Services Revolving Fund (internal service), Telecommunications Revolving Fund (internal service), and State Sponsored Group Insurance Fund (internal service) operations and are recorded as fund assets and liabilities.

NOTE 17 — UNEMPLOYMENT COMPENSATION DEBT

Advances from Federal Agencies

As of September 30, 1987, the Michigan Unemployment Compensation Fund (MUCF) had a liability to the federal government of $1,120.6 million for amounts borrowed to pay unemployment compensation. As of September 30, 1988, the debt had been reduced to $952.5 million. The debt principal is being repaid to the federal government using regular unemployment tax receipts.

On the balance sheet, the portion expected to be repaid within 12 months ($171.0 million) is classified as a current liability which is included in the "Accounts payable and other liabilities" line. The amount expected to be outstanding at September 30, 1989 ($781.5 million) is reported as a long-term liability on the "Advances from federal agencies" line. These transactions are recorded in the MUCF, which is a component unit included in the expendable trust fund group. Currently, none of the federal advance is interest bearing; however, as explained in Note #9, the outstanding advance balance does reduce earnings on the MUCF's equity in a U.S. Treasury trust fund.

Deferred Interest

In prior years, part of the federal advance was interest bearing. Interest payments are the responsibility of the State, not the MUCF. The federal government allowed the State to defer payments on this liability. The final payment on the deferred interest ($2.3 million) is payable on September 30, 1989. This liability is recorded in the General Long-Term Obligations Account Group. Normally, the State does not recognize liabilities for accrued interest on general long-term debt until it becomes "due and payable." This liability, however, was recorded because of its unusual nature and size.

A special tax surcharge, known as the solvency tax, was imposed on certain employers in the State of Michigan for the purpose of payment of the interest and to help fund a major contribution and payment automation project. The solvency tax collections are deposited into the Michigan Employment Security Act Contingent Fund, an expendable trust fund reported on in these financial statements. The State remains liable for interest payments, in the event that the trust fund's assets are insufficient. At September 30, 1988, the trust fund's fund balance amounted to $36.9 million.

NOTE 18 — BONDS, NOTES, AND LOTTERY PRIZE AWARDS PAYABLE - ENTERPRISE FUND GROUP

Lottery Prize Awards Payable

The State Lottery Fund makes long-term prize awards for certain of its games, most notably the lotto games. Liabilities related to these deferred prize awards are recorded at their present value using discount rates ranging from 6% to 8%. The liquidation of these liabilities is provided for by investment in U.S. Treasury deep discount bonds and in the State's common cash pool.

The present value of future payments for unpaid prize awards payable as of September 30, 1988 is summarized as follows (in millions):

Twelve months ending September 30:	
1989	$ 60.8
1990	45.4
1991	45.3
1992	45.3
1993	45.0
1994 through 1998	218.6
1999 through 2003	212.1
2004 through 2008	113.4
2009 through 2013	3.7
2014 through 2018	3.2
Later years	6.8
Total	800.0
Less unamortized discount	(351.5)
Total at present value	$ 448.5

Public Act 239 of 1972 requires that, as nearly as practicable, 45% of gross ticket revenue shall be allocated for prize awards. The prize structure for certain games being played exceeded this percentage; accordingly, additional amounts have been allocated for prize awards. The additional amounts approximated $46.6 million in fiscal year 1987-88. More detailed information on the State Lottery Fund is available in the fund's separately issued audited financial statements, which are prepared quarterly.

Note 18 continued on next page.

Bonds and Notes Payable

All of the bonds and notes payable in the enterprise fund group are legal obligations of component units and they are not general obligations of the State. The following table summarizes bonds (net of discounts) and notes payable by component unit (in millions):

	MSHFA	MHESLA	MISPC	MSF	MSHDA	TOTAL
Notes Payable...	$ -	$ 25.0	$ -	$ -	$ -	$ 25.0
Bonds Payable...	2,364.2	79.4	.4	18.9	1,840.3	4,303.5
Total.......	$2,364.2	$ 104.4	$ .4	$ 18.9	$1,840.3	$4,328.5

The following briefly describes these debts, which are more fully explained in each unit's separately issued financial statements:

Michigan State Hospital Finance Authority (MSHFA) - The bonds of this authority are limited obligation bonds which carry interest rates ranging from 5% to 15.75%. The bonds are repayable solely from loan repayments, investment earnings, and retained bond proceeds. The following table summarizes the debt service requirements of this authority as of its year-end of June 30 (in millions):

Fiscal Year	Principal	Interest	Total
1988-89..............................	$ 50.3	$ 177.3	$ 227.6
1989-90..............................	48.4	173.6	222.1
1990-91..............................	52.5	170.0	222.6
1991-92..............................	53.5	151.0	204.6
1992-93..............................	153.7	201.5	355.3
Total five years......................	358.6	$ 873.7	$1,232.3
Five years ending June 30, 1998.......	374.0		
Ten years ending June 30:			
2008..............................	1,003.2		
2018..............................	670.6		
	2,406.6		
Less unamortized discount............	(42.4)		
Total principal..................	$2,364.2		

Michigan Higher Education Student Loan Authority (MHESLA) - As of September 30, 1988, the debts of this authority included: revenue bonds of $25.0 million maturing in 1988-89, which carried stated interest rates of 8%, and a collateralized promissory note for $79.4 million, which has a variable interest rate, with interest paid quarterly and principal due no later than July 2000. Subsequent to year-end, the Authority issued new bonds to finance the defeasance of existing bonds and the refinancing of its promissory note.

Mackinac Island State Park Commission (MISPC) - The commission's bonds are revenue bonds which carry an average interest rate of 7.89%. Annual principal and interest maturities for the next five years approximate $72 thousand annually; debt service requirements after 1992-93 total $306.4 thousand, with the final payments due in 1997. The amounts reported as bonds payable in these statements do not include $305 thousand of outstanding bonds which were defeased in prior fiscal years.

Note 18 continued on next page.

Michigan Strategic Fund (MSF) - The bonds of the MSF are limited obligation revenue bonds, which carry an average interest rate of 11.5%. The bonds are repayable solely from distributions of the Michigan Natural Resources Trust Fund. The following table summarizes the principal and interest requirements on these bonds (in millions):

Fiscal Year	Principal	Interest	Total
1988-89	$ 2.1	$ 2.2	$ 4.3
1989-90	1.9	1.9	3.8
1990-91	1.9	1.7	3.6
1991-92	1.8	1.5	3.3
1992-93	1.9	1.3	3.2
1993-94	9.0	1.0	10.0
Total	$18.9	$ 9.6	$28.5

The MSF also issues industrial development revenue bonds which are not recorded as liabilities. These borrowings are, in substance, debts of other entities and financial transactions are handled by outside trustees.

Michigan State Housing Development Authority (MSHDA) - The bonds of this authority are revenue bonds which carry effective interest rates ranging from 5.74% to 13.99%. The following table summarizes principal and interest requirements for the next five years as of MSHDA's fiscal year-ends of June 30 (in millions):

Fiscal Year	Principal	Interest	Total
1988-89	$ 65.6	$ 137.5	$ 203.1
1989-90	50.3	132.7	183.0
1990-91	52.9	128.3	181.2
1991-92	57.3	123.8	181.1
1992-93	54.8	119.2	174.1
Total five years	281.0	$ 641.6	$ 922.7
1993-2023	1,579.8		
	1,860.9		
Less unamortized discount	(20.5)		
Total principal	$1,840.3		

In 1985 the legislature authorized the MSHDA to issue up to $400,000,000 of limited obligation bonds to finance multi-family housing projects. Such bonds are not general obligations of the authority but are secured solely by revenues and property derived from or obtained in connection with the housing projects. Thus, these bonds are considered no commitment debt and, therefore, are not reflected as liabilities in either the financial statements or the above table. At June 30, 1988, limited obligation bonds had been issued totalling $175.5 million, of which three issues totalling $31.2 million had been retired.

NOTE 19 — DEFERRED COMPENSATION PLANS

The State has established two deferred compensation plans for its employees. Both are administered by the Department of Civil Service and the State does not make any contribution to either. These plans and the accounting policies applied to each are described below.

Section 457 Plan:

Created in accordance with Internal Revenue Code Section 457, this plan is available to all State employees to permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is accounted for in the State Employees' Deferred Compensation Fund I (457), an agency fund.

Employee contributions, which are made by payroll deduction, are recognized as increases in fund assets and liabilities. Benefits are recognized as decreases in fund assets and liabilities when paid. The fund is primarily invested in guaranteed investment contracts with insurance companies which are valued at cost plus accrued interest. This is also the method used to value a participant's interest in the plan. Short-term investments are held in the common cash pool. Investment earnings, net of administrative charges, are credited to the participants based upon their balances in the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. Participants' rights under the plan are equal to those of general creditors of the State in an amount equal to the value of the deferred account for each participant. The State believes that it is unlikely that it will use the assets to satisfy the claims of other general creditors in the future.

It is the opinion of the State's legal counsel that the State has no liability for losses under the plan, unless it fails to discharge its duty to exercise due care that would be required of an ordinary prudent investor.

Section 401k Plan:

The State also offers a plan created in accordance with Internal Revenue Code Section 401k. This deferred compensation plan is accounted for in the State Employees' Deferred Compensation Fund II (401k), an expendable trust fund. The deferred compensation is not available to employees until termination, retirement, death, financial hardship, or attainment of 59 1/2 years of age. The plan does, however, include loan provisions. Unlike the section 457 plan, this plan's assets are not subject to the claims of the State's general creditors.

Employee participants are offered two basic options for the investment of their contributions and accumulated earnings. They may choose to participate in a State administered guaranteed investment contract option or they may choose to self direct their funds within a group of mutual funds. Employees may use both options and they can, at periodic intervals, transfer funds between the two options.

The fund balance of the fund represents net assets available for plan benefits. Employee contributions, which are made by payroll deduction, are recognized as revenue; benefits are recognized as expenditures when paid. Short-term investments are held in the State's common cash pool. Investment earnings, net of administrative charges, are credited to the participants based upon their balances in the plan. Loans to participants are recorded as assets.

Investments in guaranteed investment contracts are valued at cost plus accrued interest, which is the same basis as is used for determining each participant's interest in the plan under this option. Mutual fund investments are valued at market, with the net of both realized and unrealized gains and losses shown as miscellaneous revenue. Mutual fund investments are valued at market, rather than cost, because each participant's interest under this option is based upon market. Also, the nature of the investments makes it infeasible to use the cost method, as the records necessary to determine cost are not available.

NOTE 20 — INTERFUND RECEIVABLES AND PAYABLES

In the following table, the most significant current interfund receivable and payable balances are listed by individual fund. Other funds' balances are shown in total for each fund type. On the balance sheet these balances are presented as "Amounts due from other funds" and "Amounts due to other funds." Not included in the table below are long-term interfund receivables and payables, which totaled $28.1 million on September 30, 1988. The largest interfund advance ($17.4 million) is an advance made from the State Sponsored Group Insurance Fund to the Motor Transport Revolving Fund, both of which are internal service funds. These long-term items are classified on the balance sheet as interfund advances.

GOVERNMENTAL FUND TYPES	INTERFUND RECEIVABLES (In Thousands)	INTERFUND PAYABLES (In Thousands)
General Fund	$ 73,536	$ 33,557
Special Revenue Funds:		
State Trunkline Fund	32,871	90
Michigan Transportation Fund	2,579	38,967
Comprehensive Transportation Fund	12,183	22
Game & Fish Protection Trust Fund	348	-
Michigan Natural Resources Trust Fund	2,521	-
Counter-Cyclical Budget and Economic Stabilization Fund	8,143	-
State Building Authority Advance Financing Fund	-	4,098
State Building Authority	-	6,479
Mackinac Bridge Authority	-	343
Other Special Revenue Funds	2,094	261
	60,743	50,265
Debt Service Funds:		
State Building Authority	1,922	-
Other Debt Service Funds	87	-
	2,009	-
Capital Projects Funds:		
State Building Authority	79	7,266
State Building Authority Advance Financing Fund	-	54,943
	79	62,210
PROPRIETARY FUND TYPES		
Enterprise Funds:		
Liquor Purchase Revolving Fund	300	26
State Lottery Fund	1,022	6
Michigan Higher Education Assistance Authority	-	360
Michigan Strategic Fund	39	360
Michigan State Housing Development Authority	-	1,184
Other Enterprise Funds	83	92
	1,446	2,029
Internal Service Funds:		
State Sponsored Group Insurance Fund	1,775	-
Other Internal Service Funds	-	209
	1,775	210
FIDUCIARY FUND TYPES		
Trust and Agency Funds:		
State Police Retirement Fund	307	-
State Employees' Retirement Fund	2,459	-
Public School Employees' Retirement Fund	1,435	-
Michigan Unemployment Compensation Fund	1,277	1,118
Michigan Employment Security Act Contingent Fund	2,016	-
Michigan State Accident Fund	1,496	-
Second Injury Fund	384	11
Municipal Employees' Retirement Fund	1,125	-
Michigan Education Trust	-	1,000
State Employees' Deferred Compensation Fund I (457)	466	-
Transportation Related Trust Funds	165	2,460
Other Trust and Agency Funds	2,597	1,207
	13,731	5,798
Total Current Interfund Receivables and Payables All Funds*	$153,322	$154,070

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* Interfund receivables and payables do not agree because the Michigan State Housing Development Authority has a June 30 fiscal year-end.

NOTE 21 — INTERFUND COMMITMENTS

Transfers from the Michigan Veterans' Trust Fund

When the Michigan Veterans' Trust Fund, a special revenue fund, was created in 1946, it was provided $50.0 million to be reserved for investment purposes. In subsequent years, $49.9 million of the reserve was returned to the General Fund in accordance with P.A. 119 of 1976 and P.A. 353 of 1980. The acts include provisions for making future annual General Fund appropriations to replenish the investment reserves and to make up for lost interest income.

Through September 30, 1988, $31.9 million has been returned by the General Fund, including $4.0 million in 1987-88. The balance of the $49.9 million ($17.9 million) is considered a budgetary commitment subject to appropriation. It is, therefore, not recorded as an asset of the special revenue fund or a liability of the General Fund.

Mackinac Bridge Authority

The Mackinac Bridge Authority, which is reported as a special revenue fund, has over the years received $75.3 million of subsidies for operations ($12.3 million) and debt service ($63.0 million). These subsidies were provided by the State Trunkline and Michigan Transportation funds, respectively, both of which are special revenue funds.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State funds for the subsidies provided. These repayments would continue until such time as the subsidies have been completely returned. The Authority has not recorded a liability and the State funds have not recorded receivables for these subsidies because the reimbursements are contingent upon future net revenues, there is no repayment schedule, and the repayment commitment is long-term and budgetary in nature. As of September 30, 1988, no repayments have been made.

NOTE 22 — EQUITY TRANSFERS AND CHANGES IN CONTRIBUTED CAPITAL

Equity Transfers

During 1987-88, two equity transfers were made. The General Fund provided a $.3 million contribution of fixed assets and the Michigan Natural Resources Trust Fund (a special revenue fund) made a $.5 million contribution of land to Michigan State Fair Revolving Fund (an enterprise fund). These are reported as equity transfers in the General and special revenue funds and as contributed capital additions in the enterprise fund class.

Changes in Contributed Capital

This year, for the first time, the State is separately recording capital contributions made to proprietary type funds. The change was made retroactive through the beginning of the 1986-87 fiscal year, therefore, beginning balances for retained earnings and contributed capital in the affected funds have been restated. The amounts contributed prior to 1986-87 are not reasonably determinable, except for the amounts related to the Motor Transport Revolving Fund and the Michigan Higher Education Assistance Authority. To the extent such contributions occurred, the amounts contributed prior to 1986-87 are reflected in retained earnings.

The following table summarizes contributed capital transactions made during the year (in thousands):

	Enterprise Funds			Internal Service Funds		
	Michigan State Fair Revolving Fund	Michigan Higher Education Assistance Authority	Total	Correctional Industries Revolving Fund	Motor Transport Revolving Fund	Total
Beginning balance (restated).......	$1,514	$1,516	$3,030	$1,373	$8,444	$9,818
Equity transfers from other funds..	855	-	855	-	-	-
Contributed capital reductions.....	-	-	-	-	-	-
Ending Balance.....................	$2,370	$1,516	$3,886	$1,373	$8,444	$9,818

NOTE 23 — RETAINED EARNINGS

Reservations:

Certain amounts of retained earnings for component units reported in the enterprise fund group are reserved for specified purposes. Generally, these reservations are required by the applicable bond agreements. The amounts (in millions), by component unit, as of the fiscal year-end are as follows:

	1988	1987
Michigan Higher Education Student Loan Authority......	$ 45.4	$ 42.0
Michigan Higher Education Assistance Authority........	4.2	3.8
Mackinac Island State Park Commission.................	.2	4.5
Michigan Strategic Fund...............................	80.8	59.7
Michigan State Housing Development Authority..........	110.1	105.8
Total...	$240.9	$216.0

Fund Deficits:

All funds and component units reported in the proprietary type funds have positive retained earnings balances except for the Low-Level Radioactive Waste Authority (an enterprise fund) which has a deficit of $1.1 million representing losses accumulated in the development stage, the Department of Natural Resources Magazine Fund (an enterprise fund) which has an accumulated deficit of $.8 million, and the Federal Surplus Revolving Fund (an internal service fund) which has an accumulated deficit of $.4 million.

NOTE 24 — FUND BALANCES

Reservations:

The line entitled "reserved fund balance" on the combined balance sheet at September 30, 1988 consists of the following (in millions):

	General	Special Revenue	Debt Service	Capital Project	Pension Trust
Budgetary carry-forwards:					
Encumbrances..	$ 79.9	$ 57.2	$ –	$ –	$ –
Restricted revenues...................................	232.5	28.3	.3	–	–
Multi-year projects (capital outlay and work projects)	284.0	258.4	–	.1	–
Construction and debt service.........................	–	31.7	–	39.9	–
Revolving loan programs...............................	3.7	.5	–	–	–
Funds held as permanent investments...................	–	53.2	–	–	–
Noncurrent assets.....................................	50.4	118.6	74.4	–	–
Retirement Benefits...................................	–	–	–	–	15,044.5
Total Reserved Fund Balances......................	$650.8	$548.2	$ 74.8	$ 40.0	$15,044.5

Budgetary carry-forwards represent unused spending authorization which continues to be available in the new year. Such amounts are reserved because the funds are legally segregated for a specific purpose.

Reserves for revolving loan programs represent fund balance which has been appropriated for the purpose of making loans that will encourage economic development in the State. Repayments on such loans are authorized to be used for the making of new loans.

Construction and debt service reserves represent amounts which are restricted for State Building Authority projects that are in process.

Funds held as permanent investment represent amounts that have been legally restricted for the purpose of providing a long-term source of investment income. These investments can include either specific investments held for the fund or portions of the fund's share of the common cash pool.

Note 24 continued on next page.

The State does not record any reservations in expendable trust funds because the balances are all considered available for the purposes of the various funds. Also, no reservations of fund balances are recorded in single purpose special revenue, debt service, and capital project funds. From the overall State perspective, the unreserved fund balances of funds other than the General Fund are restricted by the nature of the fund type and they are not available for general State purposes.

Fund deficits:

All governmental and fiduciary funds have positive ending unreserved fund balances with the exceptions of two newly established State Building Authority Advance Financing Funds which account for monies expended to begin projects for which bonds have not yet been issued. The State Building Authority Advance Financing Capital Projects Fund recorded a year-end deficit of $62.7 million; the State Building Authority Advance Financing Special Revenue Fund recorded a year-end deficit of $4.5 million.

NOTE 25 — SEGMENT INFORMATION FOR ENTERPRISE FUNDS

State Funds - The State operates five enterprise funds. The Liquor Purchase Revolving Fund accounts for the State's activities in the distribution of liquor at the wholesale and retail levels. The fund is also used to account for certain liquor taxes that generate revenue for other State activities. Public Act 431 of 1984 requires that the net income of the fund be transferred to the General Fund.

The State Lottery Fund accounts for the State lottery games and regulation of bingo and charity games. Profits from the lottery are transferred to the School Aid Fund and profits from regulation of bingo and charity games are transferred to the General Fund.

The Low-Level Radioactive Waste Authority accounts for the activities necessary to establish and operate a waste disposal facility in Michigan to serve seven midwestern states. The deficit in fund equity represents the accumulated net costs incurred while the Authority is in the development stage.

The Michigan State Fair Revolving Fund records the results of the annual State Fair and periodic rental of fairground facilities. The General Fund provides periodic contributions for the improvement of facilities. Public Act 431 of 1984 also requires that the net income of this fund be transferred to the General Fund.

The Department of Natural Resources Magazine Fund accounts for the production and sale of various publications.

Segment information for the fiscal year ended September 30, 1988 (in thousands) was as follows:

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	LOW-LEVEL RADIOACTIVE WASTE AUTHORITY	MICHIGAN STATE FAIR REVOLVING FUND	DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND	SUBTOTAL STATE FUNDS
Operating Revenues..........	$ 413,275	$ 1,248,392	$ -	$ 3,423	$ 1,741	$ 1,666,833
Depreciation and Amortization..............	963	32,875	8	619	-	34,466
Operating Income (Loss).....	58,848	489,116	(8)	(1,760)	(75)	546,119
Tax Revenues................	7,180	-	-	-	-	7,180
Operating Transfers In......	4	1	129	635	-	771
Operating Transfers Out:						
Statutory Net Income Transfer...............	(54,418)	(488,882)	-	-	-	(543,301)
Administrative General Fund Costs.............	(10,212)	(235)	(44)	(42)	(15)	(10,550)
Operating Transfers Out..	(64,631)	(489,118)	(44)	(42)	(15)	(553,851)
Net Income (Loss)...........	-0-	-0-	(1,132)	(1,430)	(102)	(2,666)
Current Year Capital Contributions.............	-	-	-	855	-	855
Net Working Capital.........	38,802	57,905	1,953	(4,282)	(295)	94,081
Property, Plant, and Equipment.................	6,779	2,755	50	17,606	-	27,191
Total Assets................	78,821	469,373	2,039	17,756	645	568,635
Long-Term Liabilities.......	4,405	390,326	3,136	241	491	398,601
Total Equity (Deficit)......	41,175	5,815	(1,132)	13,082	(787)	58,154

Note 25 continued on next page.

Component Units - The enterprise fund type includes the following: the Michigan State Housing Development Authority (MSHDA), Michigan State Hospital Finance Authority (MSHFA), Michigan Higher Education Student Loan Authority (MHESLA), Michigan Higher Education Assistance Authority (MHEAA), Michigan Strategic Fund (MSF), and the Mackinac Island State Park Commission (MISPC).

Four of the authorities issue long-term debt: to finance loans for the construction of multifamily and single family housing and home improvements (MSHDA), for capital improvements and equipment acquisition at nonprofit hospitals (MSHFA), for tuition to qualified students attending participating institutions of higher education (MHESLA), and for issuing loans and grants to private enterprises to foster economic expansion (MSF). The long-term debt of these authorities is financed mainly from loan repayments and investment income.

The MHEAA is the State guaranty agency under the Guaranteed Student Loan Program, the Supplemental Loans to Students Program, and the Parent Loan for Undergraduate Students Program.

The MISPC accounts for the operation of the Mackinac Island State Park. The majority of its costs are financed through admission fees, although it does receive a partial subsidy in the form of a General Fund appropriation determined annually by the Legislature.

Segment information for component units included in the enterprise fund for the fiscal years ended in 1988 (in thousands) is as follows:

	MSHFA	MHESLA	MHEAA	MISPC	MSF	MSHDA	Subtotal Component Units
Operating Revenues......	$ 209,610	$ 15,200	$ 53,127	$ 1,955	$ 8,038	$ 191,041	$ 478,973
Depreciation and Amortization Expense..	-	130	-	164	-	325	620
Operating Income (Loss).	722	3,106	6,013	(1,654)	(1,458)	7,488	14,217
Operating Transfers In (subsidies)...........	-	-	-	1,747	23,750	-	25,497
Net Income (Loss).......	(391)	3,106	(8,688)	264	10,816	7,488	12,595
Net Working Capital.....	229,972	16,586	9,027	2,257	10,468	1,070	269,381
Property, Plant, and Equipment.............	-	-	-	3,020	-	-	3,020
Mortgages and Loans Receivable (Net)......	1,219,186	129,702	820	-	16,121	1,592,073	2,957,903
Total Assets............	2,443,786	156,268	58,996	5,372	111,141	2,208,737	4,984,303
Bonds (Net) and Other Long-Term Liabilities.	2,314,825	97,149	482	426	17,869	1,775,853	4,206,606
Total Equity............	6,300	49,275	24,223	4,851	90,546	148,622	323,818

The following table demonstrates the relative shares of State funds and component units:

	STATE FUNDS	COMPONENT UNITS	TOTAL ENTERPRISE FUNDS
Operating Revenues...	$1,666,833	$ 478,973	$2,145,806
Depreciation and Amortization Expense..........................	34,466	620	35,086
Operating Income (Loss)..	546,119	14,217	560,336
Tax Revenues...	7,180	-	7,180
Operating Transfers:			
In...	771	25,497	26,268
Out..	(553,851)	-	(553,851)
Net Income (Loss)..	(2,666)	12,595	9,929
Current Year Capital Contributions.............................	855	-	855
Net Working Capital..	94,081	269,381	363,463
Property, Plant, and Equipment.................................	27,191	3,020	30,212
Mortgages and Loans Receivable (Net)...........................	-	2,957,903	2,957,903
Total Assets...	568,635	4,984,303	5,552,939
Bonds (Net) and Other Long-Term Liabilities....................	398,601	4,206,606	4,605,207
Total Equity...	58,154	323,818	381,972

NOTE 26 — STATE SPONSORED GROUP INSURANCE

The State is self-funded for most of its employee insurance benefit programs. The programs are accounted for in the State Sponsored Group Insurance Fund, an internal service fund. The fund is reported in accordance with the generally accepted accounting principles applicable to the private insurance industry. Expenses and liabilities for incurred but not reported or not processed benefit claims, based on preliminary estimates from the plan administrators, have been recorded as liabilities in the amount of $70.0 million. This includes a long-term portion which is recorded at a discounted present value of $22.9 million. Unearned premium revenue of $41.2 million has been recorded as deferred revenues. These unearned premiums represent fund and employee contributions in excess of recognized expenses at the benefit program level.

The Department of Civil Service intends that the various component programs of the fund be self-supporting in the long run. Individual programs may incur deficits during a given year, but each program's surplus, unearned premium balance, or deficit is considered in calculating future charges or benefit levels. Rate reductions have been implemented for certain programs, which had accumulated balances in the fund above recommended levels.

NOTE 27 — CONTINGENCIES AND COMMITMENTS

Litigation - The State is a party to various legal proceedings seeking damages or injunctive or other relief. In addition to routine litigation, certain of these proceedings could, if unfavorably resolved from the point of view of the State, substantially affect State programs or finances. These lawsuits involve programs generally in the areas of prison overcrowding and corrections, highway maintenance and transportation, social services, tax collection, comparable employee compensation, resident county hospitalization, commerce, and budgetary reductions to school districts and governmental units. Relief sought includes damages in tort cases generally, recovery of taxes paid under the Michigan premium tax and refund of claims under the single business tax. The State is also a party to various legal proceedings which, if resolved in the State's favor, would result in contingency gains to the State's General Fund balance, but without material effect upon financial position. The ultimate dispositions and consequences of all of these proceedings are not presently determinable, but such ultimate dispositions and consequences of all these legal proceedings will not themselves, in the opinion of the Attorney General of the State and the Department of Management and Budget, have a material adverse effect on the State's financial position.

The State accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the event that a significant, probable, and reasonably estimable loss is not settled prior to the preparation of these statements, the obligation is recorded as a general long-term liability or fund liability, depending on the fund type (see Note #15).

Federal Grants - Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. The State recognizes material disallowances when the loss becomes probable and reasonably estimable. As of September 30, 1988, the State estimates that additional disallowances of recognized revenues will not be material to the statements.

For fiscal year 1987-88, estimated mispayments (both State and federal shares) totaled approximately $57.3 million in the Aid to Families with Dependent Children (AFDC) program and $30.5 million in the Food Stamp program. Total mispayments in the Medicaid program are not yet known for 1987-88, but were approximately $27.2 million for 1986-87. Mispayments for the general assistance program (fully funded by the State) have not been determined.

The federal government has issued notices of intent to sanction the State because of mispayment rates in excess of federal targets for the AFDC and food stamp programs. The amount of potential sanctions, which relate to fiscal years 1981-82, 1982-83, and 1983-84, are (in millions) $13.3, $29.1, and $30.8, respectively. The State has submitted waiver requests based upon good faith efforts made to meet the target level. The waiver requests for fiscal years 1981-82 and 1982-83 have been denied, but the State will appeal. In addition, Congress is contemplating financial relief and the moratorium on collection of AFDC sanctions is being extended. Should the State ultimately face disallowances, it is estimated that a total of $151.2 million for fiscal years 1981-82 through 1987-88 could potentially need to be repaid. An additional $80.5 million of federal reimbursements under various other social service programs are under review by the federal government. No liability has been established for these potential disallowances because of the preliminary nature of the findings and the uncertainty as to the timing and amount of the ultimate outcome.

Note 27 continued on next page.

Gain Contingencies - Certain contingent receivables related to the Department of Social Services grant programs are not recorded as assets in these financial statements. Amounts recoverable from recipients for grant overpayments or from responsible third parties are recorded as receivables only if the amount is reasonably measurable, expected to be received within 12 months, and not contingent upon future grants or the completion of major collection efforts by the State. If recoveries are accrued and the program involves federal participation, a liability for the federal share of the recovery is also accrued. The unrecorded amount of potential recoveries which are ultimately collectible can not be reasonably determined.

Construction Projects - As of September 30, 1988, several construction projects were in progress, with several others in the planning stages. A significant portion of these projects involve the construction and renovation of correctional facilities. A more detailed discussion of construction commitments is included in the construction in progress disclosures (Note #11).

The Department of Transportation has entered into construction contracts for transportation related special revenue funds. As of September 30, 1988, the balances remaining in these contracts equalled $273.5 million.

Contingent Liability for Local School District Bonds - Public Act 108 of 1961, as amended, resulted in a contingent liability for the bonds of any school district which are "qualified" by the Superintendent of Public Instruction. Every qualified school district is required to borrow and the State is required to lend to it any amount necessary for the school district to avoid a default on its qualified bonds. In the event that funds are not available in the School Bond Loan Fund in adequate amounts to make such a loan, the State is required to make such loans from the General Fund. As of December 31, 1988 the principal amount of qualified bonds outstanding was $2.1 billion. Total debt service requirements on these bonds including interest will approximate $260.5 million in 1989.

Student Loan Guarantees - The Michigan Higher Education Assistance Authority (MHEAA), which is reported as an enterprise fund in this report, is contingently liable for loans made to students by financial institutions that qualify for guaranty. The State of Michigan, other than MHEAA, is not liable for these loans. The MHEAA's default ratio is currently below 5% for the fiscal year ended September 30, 1988. As a result, the federal government's reinsurance rate for defaults for the fiscal year ended September 30, 1988, is 100%. In the event of future adverse default experience, the MHEAA could be liable for up to 20% of defaulted loans. Management does not expect that all guaranteed loans could default in one year. Accordingly, the MHEAA's expected maximum contingent liability is less than 20% of outstanding guaranteed loans; however, the maximum contingent liability at September 30, 1988 is $288.0 million (20% of loans outstanding).

The MHEAA entered into commitment agreements with all lenders that provide, among other things, that the MHEAA will maintain cash and marketable securities of at least 2% of the aggregate unpaid principal amount of all loans they have guaranteed. The MHEAA was in compliance with this requirement as of September 30, 1988 and 1987.

Unemployment Compensation - The State is contingently liable for future unemployment benefits for current employees. The Michigan Employment Security Commission (MESC) bills the State for the actual amount of claims paid to former State employees. The State accrues liabilities for unemployment compensation only to the extent of the amount paid by MESC through September 30. During the 1987-88 fiscal year, expenditures for payments to former State employees totaled $4.5 million. The potential liability for future year payments has not been estimated.

Michigan Education Trust (MET) - As of September 30, the MET (an expendable trust) was holding an open enrollment period which ended November 30, 1988. The MET offers contracts which, for actuarially determined amounts, will guarantee future tuition at State institutions of higher education. Contract provisions also allow the benefits to be used at private or out-of-state institutions, with the amount provided being based upon rates charged by the State's public institutions. The tuition guarantee is made by MET as a separate legal entity and these contracts are not considered obligations of the State. The Legislature is not obligated to provide appropriations should losses occur and the statutes and contracts provide for refunds to the participants if MET becomes actuarially unsound.

As of September 30, the MET had received contracts totalling $11.6 million. By the end of the November 30 enrollment period, 40,409 contracts totaling $265.4 million had been received. An actuarial valuation report for this first enrollment period was issued February 22, 1989 and as of that date, the MET is considered to be actuarially sound.

NOTE 28 — SUBSEQUENT EVENTS

General Obligation Bonds: On November 8, 1988, the electorate authorized the State to issue up to $800 million of additional general obligation bonds for the purposes of environmental protection and recreation. The "Environmental Protection Bond Implementation Act" (P.A. 328 of 1988) establishes how up to $660 million of bonds may be used. The "Recreation Bond Implementation Act" (P.A. 329 of 1988) governs the use of the remaining $140 million.

The statutes provide for the issuing of the bonds over a period of time, with no more than 34% to be issued in the year ending November 30, 1989 and 33% in each of the next two year periods. Unissued amounts after those years may be issued at the discretion of the State Administrative Board. No bonds have yet been issued, but borrowings are anticipated prior to the end of the 1988-89 fiscal year.

School Bond Loan Fund Borrowing: On October 31, 1988, school loan notes totalling $1.5 million were issued pursuant to Article IX, Section 16 of the State Constitution, and P.A. 112 of 1961, as amended. These were issued to make loans to school districts and to pay bond anticipation notes dated April 29, 1988, totalling $.3 million.

II FINANCIAL SECTION

SUPPLEMENTAL FINANCIAL DATA

COMBINING FINANCIAL
STATEMENTS
AND SCHEDULES

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - BY CLASSIFICATION

SEPTEMBER 30, 1988
(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 283	$ 25	$ 73
Equity in Common Cash	392,221	171,015	28,173
Taxes, interest, and penalties receivable	64,111	10	-
Amounts due from other funds	48,656	3,183	350
Amounts due from federal agencies	78,093	534	3,269
Amounts due from local units	21,898	385	73
Inventories	11,542	44	-
Investments	-	-	-
Other current assets	7,624	12,001	1,321
Total Current Assets	624,430	187,201	33,262
Taxes, interest, and penalties receivable	860	-	-
Advances to other funds	-	-	-
Amounts due from local units	109,251	-	-
Investments	-	-	-
Other noncurrent assets	8,624	-	-
Total Assets	$ 743,166	$ 187,201	$ 33,262
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Liability to Common Cash	$ -	$ -	$ -
Warrants outstanding	9,670	732	1,131
Accounts payable and other liabilities	226,279	5,330	7,682
Amounts due to other funds	39,083	47	212
Deferred revenue	11,258	-	1,071
Total Current Liabilities	286,290	6,110	10,098
Long-Term Liabilities:			
Deferred revenue	9,484	-	-
Total Liabilities	295,774	6,110	10,098
Fund Balances:			
Reserved	369,291	90,442	-
Unreserved	78,099	90,648	23,164
Total Fund Balances	447,391	181,090	23,164
Total Liabilities and Fund Balances	$ 743,166	$ 187,201	$ 33,262

		TOTALS	
OTHER STATE FUNDS	COMPONENT UNITS	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ 1	$ 856	$ 1,240	$ 3,149
392,071	-	983,481	982,828
139,948	-	204,070	189,379
8,444	107	60,743	49,722
-	-	81,896	62,770
1,113	-	23,470	21,321
-	-	11,586	13,077
-	57,148	57,148	44,815
1,048	996	22,993	21,474
542,627	59,109	1,446,631	1,388,540
3,209	-	4,069	3,240
4,953	-	4,953	2,015
9,433	-	118,684	122,873
25,687	8,358	34,046	16,920
-	-	8,624	8,058
$ 585,911	$ 67,467	$ 1,617,009	$ 1,541,647
$ 137,125	$ -	$ 137,125	$ 135,140
917	-	12,451	7,022
3,586	17,601	260,480	232,850
4,098	6,823	50,265	39,140
-	63	12,393	16,594
145,729	24,488	472,716	430,747
3,209	89	12,783	14,298
148,938	24,577	485,499	445,046
56,753	31,794	548,281	503,554
380,219	11,095	583,227	593,047
436,972	42,890	1,131,509	1,096,601
$ 585,911	$ 67,467	$ 1,617,009	$ 1,541,647

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - BY CLASSIFICATION
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	TRANSPORTATION RELATED	CONSERVATION AND RECREATION RELATED	REGULATORY AND ADMINISTRATIVE RELATED
REVENUES			
Taxes	$ 1,092,729	$ 23	$ -
From federal agencies	333,205	2,878	120,403
From local agencies	28,017	-	1,391
From services	888	-	-
From licenses and permits	53,985	45,472	5,170
Miscellaneous	48,803	58,131	10,521
Total Revenues	1,557,630	106,506	137,487
EXPENDITURES			
Current:			
General government	-	-	4,397
Education	-	-	-
Public safety and corrections	-	-	-
Conservation, recreation, and agriculture	-	8,896	-
Labor, commerce, and regulatory	-	-	117,126
Transportation	958,246	-	-
Capital outlay	465,964	15,501	-
Debt service:			
Capital lease payments	1,181	-	2,496
Total Expenditures	1,425,391	24,398	124,020
Excess of Revenues over (under) Expenditures	132,239	82,107	13,466
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issues	-	-	-
Capital lease acquisitions	18	-	-
Operating transfers in	485,899	17,224	2,725
Operating transfers out	(614,715)	(80,781)	(15,046)
Total Other Financing Sources (Uses)	(128,797)	(63,556)	(12,320)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	3,441	18,551	1,145
Fund Balances - Beginning of fiscal year	443,950	163,075	22,018
Equity transfers from other funds	-	-	-
Equity transfers to other funds	-	(536)	-
Fund Balances - End of fiscal year	$ 447,391	$ 181,090	$ 23,164

		TOTALS	
		FISCAL YEARS ENDED	
OTHER STATE FUNDS	COMPONENT UNITS	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ 1,595,222	$ –	$ 2,687,974	$ 2,547,187
42,119	–	498,608	497,467
689	–	30,098	28,535
–	63	952	1,279
–	8,382	113,011	75,830
33,028	3,620	154,107	138,587
1,671,060	12,067	3,484,753	3,288,887
6,350	–	10,747	10,381
2,733,887	71,135	2,805,022	2,585,583
–	–	–	1
–	18	8,914	4,188
–	–	117,126	107,988
–	5,267	963,514	908,117
–	–	481,465	497,350
–	–	3,677	4,163
2,740,237	76,421	4,390,470	4,117,774
(1,069,176)	(64,353)	(905,716)	(828,886)
300	77,216	77,516	75,266
–	–	18	1,111
1,101,148	18	1,607,017	1,443,369
(26,613)	(6,234)	(743,390)	(703,747)
1,074,835	71,000	941,160	815,999
5,658	6,646	35,443	(12,887)
431,313	36,243	1,096,601	1,109,236
–	–	–	535
–	–	(536)	(282)
$ 436,972	$ 42,890	$ 1,131,509	$ 1,096,601

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS – BY CLASSIFICATION
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	TRANSPORTATION RELATED		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	$ 1,039,700	$ 1,092,729	$ 53,029
From federal agencies	323,800	333,205	9,405
From local agencies	14,900	27,917	13,017
From services	1,600	888	(711)
From licenses and permits	42,800	53,985	11,185
Miscellaneous	38,800	45,443	6,643
Operating transfers in	424,100	485,899	61,799
Total Revenues and Other Sources	1,885,700	2,040,069	154,369
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES – BY DEPARTMENT			
Management and Budget	–	–	–
State	–	–	–
Education	–	–	–
Transportation	2,143,878	2,080,293	63,585
Labor	–	–	–
Natural Resources	–	–	–
Total Expenditures, Operating Transfers Out, and Encumbrances	2,143,878	2,080,293	63,585
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ (258,178)	(40,223)	$ 217,955
Reconciling Items:			
Encumbrances at September 30		57,259	
Funds not annually budgeted		(13,594)	
Net Reconciling Items		43,664	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		3,441	
FUND BALANCES (GAAP BASIS)			
Beginning balances		443,950	
Equity transfers to other funds		–	
Ending balances (GAAP Basis)		$ 447,391	

CONSERVATION AND RECREATION RELATED			REGULATORY AND ADMINISTRATIVE RELATED			OTHER STATE FUNDS		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ -	$ 23	$ 23	$ -	$ -	$ -	$ 1,595,100	$ 1,595,222	$ 122
-	2,878	2,878	112,000	120,403	8,403	42,000	42,119	119
-	-	-	-	1,391	1,391	800	689	(110)
-	-	-	-	-	-	-	-	-
38,400	45,472	7,072	4,000	5,170	1,170	-	-	-
50,100	50,322	222	9,100	10,073	973	29,500	33,028	3,528
12,500	16,994	4,494	3,500	2,725	(774)	1,101,500	1,101,148	(351)
101,000	115,691	14,691	128,600	139,765	11,165	2,768,900	2,772,208	3,308
-	-	-	6,504	6,020	484	31,565	30,021	1,543
-	-	-	1,022	390	631	-	-	-
-	-	-	-	-	-	2,726,873	2,729,340	(2,466)
-	-	-	-	-	-	-	-	-
-	-	-	132,605	132,250	355	-	-	-
103,436	98,692	4,744	-	-	-	-	-	-
103,436	98,692	4,744	140,132	138,661	1,471	2,758,438	2,759,362	(923)
$ (2,436)	16,998	$ 19,435	$ (11,532)	1,104	$ 12,636	$ 10,461	12,846	$ 2,385
	-			-			7	
	1,552			41			(7,195)	
	1,552			41			(7,187)	
	18,551			1,145			5,658	
	163,075			22,018			431,313	
	(536)			-			-	
	$ 181,090			$ 23,164			$ 436,972	

This schedule continued on next page.

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS – BY CLASSIFICATION (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	COMPONENT UNITS			TOTALS		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes	$ –	$ –	$ –	$ 2,634,800	$ 2,687,974	$ 53,174
From federal agencies	–	–	–	477,800	498,608	20,808
From local agencies	–	–	–	15,700	29,998	14,298
From services	–	–	–	1,600	888	(711)
From licenses and permits	–	–	–	85,200	104,628	19,428
Miscellaneous	–	–	–	127,500	138,867	11,367
Operating transfers in	–	–	–	1,541,600	1,606,768	65,168
Total Revenues and Other Sources	–	–	–	4,884,200	5,067,735	183,535
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES – BY DEPARTMENT						
Management and Budget	–	–	–	38,070	36,042	2,027
State	–	–	–	1,022	390	631
Education	–	–	–	2,726,873	2,729,340	(2,466)
Transportation	–	–	–	2,143,878	2,080,293	63,585
Labor	–	–	–	132,605	132,250	355
Natural Resources	–	–	–	103,436	98,692	4,744
Total Expenditures, Operating Transfers Out, and Encumbrances	–	–	–	5,145,886	5,077,008	68,877
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ –	–	$ –	$ (261,686)	(9,273)	$ 252,412
Reconciling Items:						
Encumbrances at September 30		–			57,266	
Funds not annually budgeted		6,646			(12,549)	
Net Reconciling Items		6,646			44,717	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		6,646			35,443	
FUND BALANCES (GAAP BASIS)						
Beginning balances		36,243			1,096,601	
Equity transfers to other funds		–			(536)	
Ending balances (GAAP Basis)		$ 42,890			$ 1,131,509	

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STATE OF MICHIGAN

DESCRIPTIONS OF SPECIAL REVENUE FUNDS – TRANSPORTATION RELATED

FISCAL YEAR ENDED SEPTEMBER 30, 1988

STATE AERONAUTICS FUND

This fund, established by P.A. 327 of 1945, is administered by the Department of Transportation for improvement of airports. Its budget is subject to annual legislative review and appropriation. Financing consists mostly of federal and local contributions and aviation fuel taxes. Expenditures and transfers are for administration and local airport improvement project costs.

STATE TRUNKLINE FUND

This fund is administered by the Department of Transportation for construction and maintenance of highways. Its overall budget is subject to annual legislative review and appropriation, but the Transportation Commission has significant discretion in determining the funding of individual projects. Financing consists primarily of a transfer from the Michigan Transportation Fund, federal aid, and local participation. Expenditures and outgoing transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. In accordance with statutory provisions, any unencumbered balance at fiscal year-end is appropriated for road and bridge construction purposes.

The State Trunkline Fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Funds for such loans are made available by transfer from the 1983 State Trunkline Fund Bond Proceeds Fund and the 1984 State Trunkline Fund Bond Proceeds Fund. Loan repayments, which are received directly by the State Trunkline Fund, are not pledged to the payment of the bonds related to the loans.

MICHIGAN TRANSPORTATION FUND

This fund, established by section 10 of P.A. 51 of 1951, as amended, is administered jointly by the Department of Transportation and the Department of State. The fund is a receiving fund for the several tax revenues dedicated to highway purposes. Transfers are made from the fund to the General Fund, State Trunkline Fund, Comprehensive Transportation Fund, and the Michigan State Waterways Fund in accordance with the statutory formulae. Expenditures include grants to counties, cities, and villages for highway purposes.

COMPREHENSIVE TRANSPORTATION FUND

The fund, under the direction of the Department of Transportation, was created for the purpose of planning and developing public transportation systems within the State. It was created by Public Acts 326, 327, and 328 of 1972 and Public Act 197 of 1973, with further amendments by Public Acts 195, 196, and 239 of 1975.

Financing is provided by federal and local revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund. In accordance with statutory provisions, any unencumbered balance at fiscal year-end lapses and reverts to the fund for appropriation in the following fiscal year.

In addition to providing direct expenditures for public transportation purposes, the fund is used to provide financing for entities providing bus and rail services. Such financing is provided primarily by purchasing buses and reselling them to private carriers on a credit basis and by purchasing and leasing back rail related assets.

STATE OF MICHIGAN

DESCRIPTIONS OF SPECIAL REVENUE FUNDS – TRANSPORTATION RELATED (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 1988

COMPREHENSIVE TRANSPORTATION BOND CONSTRUCTION FUND

This fund was established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, to account for the proceeds of up to $217 million of comprehensive transportation bonds. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Section 9 of Article IX of the Michigan Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund.

The State Transportation Commission approved issuance of $106.3 million Series A bonds in 1980 and $50 million Series B bonds in 1981. These bonds are used to finance part of the costs of constructing and acquiring comprehensive transportation projects. A majority of these projects, as approved by legislative action, are undertaken to enhance local transportation systems.

1983 STATE TRUNKLINE FUND BOND PROCEEDS FUND

This fund was established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, to account for the proceeds of $135 million of State trunkline bonds issued in 1983. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for State trunkline purposes by Section 9 of Article IX of the Michigan Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund.

These bonds are being used in part to finance the costs of reconstructing and resurfacing portions of the State trunkline system. The bonds were also used to finance loans to local units of government for reconstructing and resurfacing roadways. These loans are recorded as assets in the State Trunkline Fund, which receives loan repayments.

1984 COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

This fund was established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, to account for the proceeds of $60 million of comprehensive transportation bonds issued in 1984. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Section 9 of Article IX of the Michigan Constitution and irrevocably pledged by law for disposition in the Comprehensive Transportation Fund. These bonds are being used to finance part of the construction and acquisition of comprehensive transportation projects.

1984 STATE TRUNKLINE FUND BOND PROCEEDS FUND

This fund was established pursuant to Section 18(b) of P.A. 51 of 1951, as amended, to account for the proceeds of $50 million of State trunkline bonds issued in 1984. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for State trunkline purposes by Section 9 of Article IX of the Michigan Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund.

These bonds are being used in part to finance the costs of reconstructing and resurfacing portions of the State trunkline system. The bonds were also used to finance loans to local units of government for reconstructing and resurfacing roadways. These loans are recorded as assets in the State Trunkline Fund, which receives the loan repayments.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
SEPTEMBER 30, 1988
(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
ASSETS				
Current Assets:				
Cash and cash equivalents	$ -	$ 279	$ 2	$ 1
Equity in Common Cash	8,776	143,831	113,994	89,239
Taxes, interest, and penalties receivable	568	-	63,542	-
Amounts due from other funds	186	32,871	2,579	12,183
Amounts due from federal agencies	8,430	61,807	-	7,855
Amounts due from local units	3,019	18,723	-	17
Inventories	-	11,542	-	-
Other current assets	15	3,285	1,163	3,159
Total Current Assets	20,996	272,340	181,282	112,456
Taxes, interest, and penalties receivable	-	-	859	-
Amounts due from local units	867	108,383	-	-
Other noncurrent assets:				
Amounts due from private carriers	-	-	-	4,436
Land contracts outstanding	-	4,186	-	1
Total other noncurrent assets	-	4,186	-	4,438
Total Assets	$ 21,864	$ 384,910	$ 182,141	$ 116,894
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	$ 190	$ 7,944	$ 262	$ 1,045
Accounts payable and other liabilities	3,560	67,835	141,642	8,632
Amounts due to other funds	1	90	38,967	22
Deferred revenue	4,779	5,687	-	791
Total Current Liabilities	8,531	81,558	180,872	10,491
Long-Term Liabilities:				
Deferred revenue	-	4,186	859	4,438
Total Liabilities	8,532	85,744	181,732	14,929
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	201	5,092	-	51,964
Restricted revenues	-	12,203	409	9,311
Multi-year projects	6,829	173,486	-	27
Revolving loan programs	513	-	-	-
Noncurrent assets	867	108,383	-	-
Total Reserved	8,412	299,166	409	61,303
Unreserved	4,919	-	-	40,661
Total Fund Balances	13,332	299,166	409	101,964
Total Liabilities and Fund Balances	$ 21,864	$ 384,910	$ 182,141	$ 116,894

				TOTALS	
COMPREHENSIVE TRANSPORTATION BOND CONSTRUCTION FUND	1983 STATE TRUNKLINE FUND BOND PROCEEDS FUND	1984 COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	1984 STATE TRUNKLINE FUND BOND PROCEEDS FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ –	$ –	$ –	$ –	$ 283	$ 201
12,334	3,210	11,533	9,302	392,221	404,964
–	–	–	–	64,111	55,807
264	77	263	229	48,656	39,765
–	–	–	–	78,093	56,359
–	–	–	138	21,898	19,884
–	–	–	–	11,542	13,077
–	–	–	–	7,624	7,575
12,599	3,288	11,796	9,670	624,430	597,634
–	–	–	–	860	482
–	–	–	–	109,251	113,635
–	–	–	–	4,436	4,826
–	–	–	–	4,187	3,231
–	–	–	–	8,624	8,058
$ 12,599	$ 3,288	$ 11,796	$ 9,670	$ 743,166	$ 719,810
$ 53	$ 96	$ 29	$ 47	$ 9,670	$ 6,145
1,400	461	1,218	1,526	226,279	213,045
–	–	–	–	39,083	32,502
–	–	–	–	11,258	12,625
1,453	558	1,248	1,574	286,290	264,319
–	–	–	–	9,484	11,540
1,453	558	1,248	1,574	295,774	275,860
–	–	–	–	57,259	28,562
–	–	–	–	21,924	9,845
–	–	–	–	180,343	177,664
–	–	–	–	513	–
–	–	–	–	109,251	110,635
–	–	–	–	369,291	326,708
11,145	2,729	10,547	8,096	78,099	117,242
11,145	2,729	10,547	8,096	447,391	443,950
$ 12,599	$ 3,288	$ 11,796	$ 9,670	$ 743,166	$ 719,810

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	STATE AERONAUTICS FUND	STATE TRUNKLINE FUND	MICHIGAN TRANSPORTATION FUND	COMPREHENSIVE TRANSPORTATION FUND
REVENUES				
Taxes	$ 5,659	$ -	$ 1,044,787	$ 42,281
From federal agencies	19,368	308,142	-	5,694
From local agencies	8,244	19,673	-	-
From services	888	-	-	-
From licenses and permits	94	8,529	45,264	97
Miscellaneous	874	27,157	8,399	9,012
Total Revenues	35,129	363,502	1,098,452	57,085
EXPENDITURES				
Current:				
Transportation	33,854	230,277	545,543	138,139
Capital outlay	-	459,363	-	-
Debt service:				
Capital lease payments	-	1,181	-	-
Total Expenditures	33,854	690,822	545,543	138,139
Excess of Revenues over (under) Expenditures	1,275	(327,319)	552,908	(81,053)
OTHER FINANCING SOURCES (USES)				
Capital lease acquisitions	-	18	-	-
Operating transfers in	-	382,451	795	102,652
Operating transfers out	(581)	(37,594)	(553,294)	(23,222)
Total Other Financing Sources (Uses)	(581)	344,875	(552,499)	79,430
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	694	17,555	409	(1,623)
Fund Balances - Beginning of fiscal year	12,638	281,610	-0-	103,588
Fund Balances - End of fiscal year	$ 13,332	$ 299,166	$ 409	$ 101,964

COMPREHENSIVE TRANSPORTATION BOND CONSTRUCTION FUND	1983 STATE TRUNKLINE FUND BOND PROCEEDS FUND	1984 COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	1984 STATE TRUNKLINE FUND BOND PROCEEDS FUND	TOTALS	
				FISCAL YEARS ENDED	
				SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ –	$ –	$ –	$ –	$ 1,092,729	$ 1,018,713
–	–	–	–	333,205	344,748
–	–	–	100	28,017	25,904
–	–	–	–	888	1,188
–	–	–	–	53,985	23,926
1,054	314	1,123	869	48,803	40,561
1,054	314	1,123	969	1,557,630	1,455,043
4,821	50	5,560	–	958,246	904,401
–	1,853	–	4,746	465,964	476,189
–	–	–	–	1,181	671
4,821	1,904	5,560	4,746	1,425,391	1,381,261
(3,767)	(1,590)	(4,437)	(3,777)	132,239	73,781
–	–	–	–	18	956
–	–	–	–	485,899	431,344
(7)	(2)	(9)	(4)	(614,715)	(559,308)
(7)	(2)	(9)	(4)	(128,797)	(127,006)
(3,774)	(1,592)	(4,446)	(3,781)	3,441	(53,224)
14,919	4,321	14,994	11,877	443,950	497,175
$ 11,145	$ 2,729	$ 10,547	$ 8,096	$ 447,391	$ 443,950

STATE OF MICHIGAN

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	STATE AERONAUTICS FUND		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	$ 5,100	$ 5,659	$ 559
From federal agencies	20,000	19,368	(631)
From local agencies	2,200	8,244	6,044
From services	1,600	888	(711)
From licenses and permits	100	94	(5)
Miscellaneous	500	874	374
Operating transfers in	–	–	–
Total Revenues and Other Sources	29,500	35,130	5,630
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY DEPARTMENT			
Transportation	35,911	34,637	1,273
Total Expenditures, Operating Transfers Out, and Encumbrances	35,911	34,637	1,273
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ (6,411)	492	$ 6,903
Reconciling Items:			
Encumbrances at September 30		201	
Funds not annually budgeted		–	
Net Reconciling Items		201	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		694	
FUND BALANCES (GAAP BASIS)			
Beginning balances		12,638	
Ending balances (GAAP Basis)		$ 13,332	

STATE TRUNKLINE FUND			MICHIGAN TRANSPORTATION FUND			COMPREHENSIVE TRANSPORTATION FUND		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ -	$ -	$ -	$ 993,600	$ 1,044,787	$ 51,187	$ 41,000	$ 42,281	$ 1,281
297,800	308,142	10,342	-	-	-	6,000	5,694	(305)
12,700	19,673	6,973	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
500	8,529	8,029	42,100	45,264	3,164	100	97	(2)
20,300	27,157	6,857	7,200	8,399	1,199	10,800	9,012	(1,787)
328,000	382,451	54,451	-	795	795	96,100	102,652	6,552
659,300	745,954	86,654	1,042,900	1,099,247	56,347	154,000	159,737	5,737
772,033	733,491	38,541	1,103,869	1,098,837	5,031	232,064	213,326	18,738
772,033	733,491	38,541	1,103,869	1,098,837	5,031	232,064	213,326	18,738
$ (112,733)	12,463	$ 125,196	$ (60,969)	409	$ 61,378	$ (78,064)	(53,588)	$ 24,476
	5,092			-			51,964	
	-			-			-	
	5,092			-			51,964	
	17,555			409			(1,623)	
	281,610			-0-			103,588	
	$ 299,166			$ 409			$ 101,964	

This schedule continued on next page.

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS - TRANSPORTATION RELATED (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	FUNDS NOT ANNUALLY BUDGETED			
	COMPREHENSIVE TRANSPORTATION BOND CONSTRUCTION FUND	1983 STATE TRUNKLINE FUND BOND PROCEEDS FUND	1984 COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND	1984 STATE TRUNKLINE FUND BOND PROCEEDS FUND
Statutory/Budgetary Basis	ACTUAL	ACTUAL	ACTUAL	ACTUAL
REVENUES AND OTHER SOURCES				
Taxes	$ -	$ -	$ -	$ -
From federal agencies	-	-	-	-
From local agencies	-	-	-	-
From services	-	-	-	-
From licenses and permits	-	-	-	-
Miscellaneous	-	-	-	-
Operating transfers in	-	-	-	-
Total Revenues and Other Sources	-	-	-	-
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY DEPARTMENT				
Transportation	-	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	-	-	-	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	-	-	-	-
Reconciling Items:				
Encumbrances at September 30	-	-	-	-
Funds not annually budgeted	(3,774)	(1,592)	(4,446)	(3,781)
Net Reconciling Items	(3,774)	(1,592)	(4,446)	(3,781)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)	(3,774)	(1,592)	(4,446)	(3,781)
FUND BALANCES (GAAP BASIS)				
Beginning balances	14,919	4,321	14,994	11,877
Ending balances (GAAP Basis)	$ 11,145	$ 2,729	$ 10,547	$ 8,096

TOTALS		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ 1,039,700	$ 1,092,729	$ 53,029
323,800	333,205	9,405
14,900	27,917	13,017
1,600	888	(711)
42,800	53,985	11,185
38,800	45,443	6,643
424,100	485,899	61,799
1,885,700	2,040,069	154,369
2,143,878	2,080,293	63,585
2,143,878	2,080,293	63,585
$ (258,178)	(40,223)	$ 217,955
	57,259	
	(13,594)	
	43,664	
	3,441	
	443,950	
	$ 447,391	

STATE OF MICHIGAN

DESCRIPTIONS OF SPECIAL REVENUE FUNDS - CONSERVATION AND RECREATION RELATED

FISCAL YEAR ENDED SEPTEMBER 30, 1988

GAME AND FISH PROTECTION FUND

This fund was established by P.A. 17 of 1921. It is financed principally from hunting and fishing license fees whose purpose is to support the conservation program for preservation and control of fish and wildlife. Activity in this fund consists primarily of transfers to the General Fund. The transfers finance appropriations for game and fish related activities and for grants to counties, made under provisions of P.A. 91 of 1925, as payment in lieu of taxes on certain State owned real property purchased from this fund.

Since October 1, 1987, oil and gas revenues derived from leases on land which had been purchased by the Game and Fish Protection Fund are being credited to the Game and Fish Protection Trust Fund.

MICHIGAN STATE WATERWAYS FUND

This fund was established by P.A. 320 of 1947. Subsequent legislation has broadened the fund's activities and increased its sources of revenue. It receives portions of watercraft registration fees and gasoline taxes, some of which are collected by other State funds and credited as operating transfers into this fund.

These revenues are directed primarily toward improvement of lake harbors, docking facilities, and inland waterways. Expenditures for certain items, such as capital outlay, grants to local units, and marine fuel purchases, are made directly from the fund. Other expenditures are recorded in the General Fund, with financing provided by transfers from this fund.

MARINE SAFETY FUND

This fund was established by P.A. 303 of 1967 and is financed principally by a portion of watercraft registration fees imposed by this act. Amendatory Act 153 of 1974 provided for a graduated watercraft registration fee based upon the length of a vessel or motorboat and brought licensees onto a 3-year renewal cycle. This causes the fee revenues every third year to be significantly higher than the intervening years. The 1986-87 fiscal year was a major renewal year. Activities of this fund consist solely of transfers to the General Fund and the Michigan State Waterways Fund for water safety education programs, law enforcement, and establishment of regulations for the operation of watercraft on the waters of this State.

Public Act 56 of 1988 reduced this fund's share of watercraft registration fees from 75% to 60% effective March 13, 1988. On January 1, 1989, the share will drop to 49%. These changes were made to provide funding for the new Harbor Development Program, which has been incorporated into the Michigan State Waterways Fund. Effective January 1, 1989, this law also creates the Marine Safety Advisory Council within the Department of Natural Resources. The department is required to allocate funding to counties as recommended by the Advisory Council. Further, P.A. 56 significantly increases watercraft registration fees in two increments effective January 1, 1989 and January 1, 1990.

GAME AND FISH PROTECTION TRUST FUND

This fund was created by P.A. 73 of 1986 to restrict certain assets for the purpose of generating interest and earnings which must be transferred to the Game and Fish Protection Fund each year. Initial funding in 1985-86 was by equity transfer of monies which were previously held in the State Recreational Land Acquisition Trust Fund in the subfund reserve established by P.A. 204 of 1976, Section 4. Additional investment funding is being provided primarily by mineral royalties from lands acquired by the Game and Fish Protection Fund which, by statute, are being retained for permanent investment. As specified by P.A. 73 of 1986, since October 1, 1987 various mineral royalties, direct sale proceeds and other revenues previously deposited in the Game and Fish Protection Fund and the Michigan Natural Resources Trust Fund have been credited to the Game and Fish Protection Trust Fund.

STATE PARK IMPROVEMENT FUND

This fund was established by P.A. 149 of 1960 as amended, and is financed mainly by the proceeds of an authorized $20 million revenue dedicated bond issue and from State park permit fees necessary for entry by motor vehicle into designated State parks. Permit fees are recorded as operating transfers from the State Park Revenue Bond Fund which makes allocations from such fees.

The resources of this fund are subject to appropriations by the Legislature for operation, the acquisition of land, construction, development, and improvement of State parks. Operating transfers out consist mainly of transfers to the General Fund for support of park operations and administrative expenditures.

MICHIGAN NATURAL RESOURCES TRUST FUND

The State Constitution was amended in November 1984 to provide for a "Michigan Natural Resources Trust Fund." Public Act 101 of 1985 implemented the amendment by stipulating that the State Recreational Land Acquisition Trust Fund be merged into the Michigan Natural Resources Trust Fund effective October 1, 1985. Except for specified exceptions, all rentals, royalties and other revenues derived from mineral, coal, oil, and gas interests on land owned by the State are credited to the fund for future purchases of land for recreational purposes, for administrative expenditures, and for the payment of any taxes owed by the State on the land. The fund is also required to make distributions through September 30, 2032 to the Michigan Strategic Fund.

Effective October 1, 1987, P.A. 73 of 1986 changed the distribution of certain mineral royalties and other revenues generated by specified lands. These revenues are now credited to the Game and Fish Protection Trust Fund, rather than this fund.

WATER POLLUTION CONTROL BOND FUND

This fund was established by P.A. 329 of 1966 to account for the proceeds of $335.0 million of general obligation bonds approved by the people in November, 1968, for the prevention and abatement of water pollution. This approval was obtained under the general authority of Section 15, Article IX, of the 1963 Constitution and P.A. 76 of 1968. Bond sales were completed in November, 1984 with a $33.0 million sale. The proceeds of these bonds are used to assist local units of government in financing construction of facilities for treatment of sewage and other liquid wastes. The fund is administered by the Department of Natural Resources.

MICHIGAN NONGAME FISH AND WILDLIFE FUND

This fund was established by P.A. 189 of 1983 as amended by P.A. 145 of 1985 and P.A. 285 of 1986 to provide for research and management of nongame fish and wildlife, designated endangered species, and designated plant species of this state. Until 1994, or sooner if the assets of the fund exceed $6.0 million, Michigan state income taxpayers may designate $2 or more of their tax refund to this fund. The fund may also receive appropriations from other funds, donations, and investment income.

Annually, 20% or more of the fund's revenues must be retained for permanent investment. The State Treasurer directs the fund's investments. Expenditures are appropriated and recorded in the General Fund, with financing provided by operating transfers from this fund.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - CONSERVATION AND RECREATION RELATED
SEPTEMBER 30, 1988
(In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
ASSETS					
Current Assets:					
Cash and cash equivalents	$ -	$ 6	$ -	$ 18	$ -
Equity in Common Cash	1,334	5,183	2,096	17,274	5,823
Taxes, interest, and penalties receivable	-	10	-	-	-
Amounts due from other funds	-	26	25	348	37
Amounts due from federal agencies	253	24	255	-	-
Amounts due from local units	-	-	-	-	-
Inventories	-	44	-	-	-
Other current assets	8,432	-	1	432	-
Total Current Assets	10,020	5,296	2,379	18,074	5,862
Total Assets	$ 10,020	$ 5,296	$ 2,379	$ 18,074	$ 5,862
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Liability to Common Cash	$ -	$ -	$ -	$ -	$ -
Warrants outstanding	19	38	-	-	22
Accounts payable and other liabilities	66	108	3	1	263
Amounts due to other funds	47	-	-	-	-
Total Current Liabilities	133	146	3	1	285
Total Liabilities	133	146	3	1	285
Fund Balances:					
Reserves for:					
Budgetary carry-forwards:					
Restricted revenues	4,304	1,257	-	-	-
Multi-year projects	1,521	3,154	-	-	3,224
Funds held as permanent investments	-	-	-	18,072	-
Total Reserved	5,826	4,411	-	18,072	3,224
Unreserved	4,060	739	2,376	-	2,351
Total Fund Balances	9,886	5,150	2,376	18,072	5,576
Total Liabilities and Fund Balances	$ 10,020	$ 5,296	$ 2,379	$ 18,074	$ 5,862

MICHIGAN NATURAL RESOURCES TRUST FUND	WATER POLLUTION CONTROL BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	TOTALS	
			SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ -	$ -	$ -	$ 25	$ -
128,393	9,843	1,065	171,015	152,366
-	-	- -	10	7
2,521	203	19	3,183	2,429
-	-	-	534	1,226
-	385	-	385	749
-	-	-	44	-
3,134	-	-	12,001	11,566
134,049	10,432	1,084	187,201	168,346
$ 134,049	$ 10,432	$ 1,084	$ 187,201	$ 168,346
$ -	$ -	$ -	$ -	$ 2,446
651	-	-	732	287
508	4,379	-	5,330	2,491
-	-	-	47	44
1,159	4,379	-	6,110	5,270
1,159	4,379	-	6,110	5,270
-	-	-	5,562	3,201
58,307	-	-	66,207	58,877
-	-	600	18,672	12,243
58,307	-	600	90,442	74,323
74,582	6,053	484	90,648	88,752
132,890	6,053	1,084	181,090	163,075
$ 134,049	$ 10,432	$ 1,084	$ 187,201	$ 168,346

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS – CONSERVATION AND RECREATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	GAME AND FISH PROTECTION FUND	MICHIGAN STATE WATERWAYS FUND	MARINE SAFETY FUND	GAME AND FISH PROTECTION TRUST FUND	STATE PARK IMPROVEMENT FUND
REVENUES					
Taxes	$ –	$ 23	$ –	$ –	$ –
From federal agencies	1,448	936	255	–	121
From local agencies	–	–	–	–	–
From licenses and permits	41,415	1,458	2,598	–	–
Miscellaneous	2,410	1,765	100	7,020	267
Total Revenues	45,274	4,182	2,954	7,020	389
EXPENDITURES					
Current:					
Conservation, recreation, and agriculture	156	3,042	–	–	–
Capital outlay	721	1,311	–	–	2,876
Total Expenditures	877	4,353	–	–	2,876
Excess of Revenues over (under) Expenditures	44,397	(170)	2,954	7,020	(2,487)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	3,166	9,237	–	230	4,589
Operating transfers out	(43,144)	(7,527)	(3,217)	(1,122)	(2,554)
Total Other Financing Sources (Uses)	(39,978)	1,710	(3,216)	(891)	2,035
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	4,419	1,539	(262)	6,128	(452)
Fund Balances – Beginning of fiscal year	5,467	3,610	2,638	11,943	6,028
Equity transfers to other funds	–	–	–	–	–
Fund Balances – End of fiscal year	$ 9,886	$ 5,150	$ 2,376	$ 18,072	$ 5,576

			TOTALS FISCAL YEARS ENDED	
MICHIGAN NATURAL RESOURCES TRUST FUND	WATER POLLUTION CONTROL BOND FUND	MICHIGAN NONGAME FISH AND WILDLIFE FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ –	$ –	$ –	$ 23	$ –
116	–	–	2,878	3,268
–	–	–	–	1
–	–	–	45,472	41,570
45,198	789	580	58,131	57,502
45,315	789	580	106,506	102,343
332	5,365	–	8,896	4,167
10,593	–	–	15,501	21,161
10,926	5,365	–	24,398	25,328
34,389	(4,576)	580	82,107	77,014
–	–	–	17,224	14,256
(22,836)	–	(378)	(80,781)	(76,967)
(22,836)	–	(378)	(63,556)	(62,710)
11,552	(4,576)	201	18,551	14,303
121,873	10,629	883	163,075	149,055
(536)	–	–	(536)	(282)
$ 132,890	$ 6,053	$ 1,084	$ 181,090	$ 163,075

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS - CONSERVATION AND RECREATION RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	GAME AND FISH PROTECTION FUND			MICHIGAN STATE WATERWAYS FUND		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES						
Taxes..................................	$ -	$ -	$ -	$ -	$ 23	$ 23
From federal agencies................	-	1,448	1,448	-	936	936
From licenses and permits............	34,900	41,415	6,515	900	1,458	558
Miscellaneous.........................	6,100	2,410	(3,689)	1,100	1,765	665
Operating transfers in...............	-	3,166	3,166	9,500	9,237	(262)
Total Revenues and Other Sources..	41,000	48,440	7,440	11,500	13,420	1,920
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY DEPARTMENT						
Natural Resources..................	45,452	44,021	1,431	13,955	11,880	2,074
Total Expenditures, Operating Transfers Out, and Encumbrances....................	45,452	44,021	1,431	13,955	11,880	2,074
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis).....	$ (4,452)	4,419	$ 8,872	$ (2,455)	1,539	$ 3,994
Reconciling Items:						
Funds not annually budgeted........		-			-	
Net Reconciling Items.............		-			-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)..................		4,419			1,539	
FUND BALANCES (GAAP BASIS)						
Beginning balances....................		5,467			3,610	
Equity transfers to other funds......		-			-	
Ending balances (GAAP Basis).........		$ 9,886			$ 5,150	

MARINE SAFETY FUND			STATE PARK IMPROVEMENT FUND			MICHIGAN NATURAL RESOURCES TRUST FUND		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	255	255	-	121	121	-	116	116
2,600	2,598	(1)	-	-	-	-	-	-
-	100	100	100	267	167	42,100	45,198	3,098
-	-	-	3,000	4,589	1,589	-	-	-
2,600	2,955	355	3,100	4,979	1,879	42,100	45,315	3,215
3,605	3,217	388	6,353	5,431	921	33,555	33,762	(206)
3,605	3,217	388	6,353	5,431	921	33,555	33,762	(206)
$ (1,005)	(262)	$ 743	$ (3,253)	(452)	$ 2,800	$ 8,544	11,552	$ 3,008
	-			-			-	
	-			-			-	
	(262)			(452)			11,552	
	2,638			6,028			121,873	
	-			-			(536)	
	$ 2,376			$ 5,576			$ 132,890	

This schedule continued on next page.

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS – CONSERVATION AND RECREATION RELATED (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN NONGAME FISH AND WILDLIFE FUND		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	–	$ –	$ –
From federal agencies	–	–	–
From licenses and permits	–	–	–
Miscellaneous	700	580	(119)
Operating transfers in	–	–	–
Total Revenues and Other Sources	700	580	(119)
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES – BY DEPARTMENT			
Natural Resources	514	378	135
Total Expenditures, Operating Transfers Out, and Encumbrances	514	378	135
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ 185	201	$ 15
Reconciling Items:			
Funds not annually budgeted		–	
Net Reconciling Items		–	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		201	
FUND BALANCES (GAAP BASIS)			
Beginning balances		883	
Equity transfers to other funds		–	
Ending balances (GAAP Basis)		$ 1,084	

FUNDS NOT ANNUALLY BUDGETED				
GAME AND FISH PROTECTION TRUST FUND	WATER POLLUTION CONTROL BOND FUND	TOTALS		
ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ –	$ –	$ –	$ 23	$ 23
–	–	–	2,878	2,878
–	–	38,400	45,472	7,072
–	–	50,100	50,322	222
–	–	12,500	16,994	4,494
–	–	101,000	115,691	14,691
–	–	103,436	98,692	4,744
–	–	103,436	98,692	4,744
–	–	$ (2,436)	16,998	$ 19,435
6,128	(4,576)		1,552	
6,128	(4,576)		1,552	
6,128	(4,576)		18,551	
11,943	10,629		163,075	
–	–		(536)	
$ 18,072	$ 6,053		$ 181,090	

DESCRIPTIONS OF SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED

MICHIGAN EMPLOYMENT SECURITY ACT -- ADMINISTRATION FUND

This fund was created by P.A. 1 of 1936 (Extra Session) to account for administrative costs of the Michigan Employment Security Commission (MESC). The fund derives most of its revenue from federal grants and, when approved by the commission, transfers from the Michigan Employment Security Act Contingent Fund (an expendable trust fund). Expenditures for administration are subject to legislative appropriation.

Unemployment benefit payments to individuals are made directly from trust funds accumulated from employer premium payments. These activities are reported in the Michigan Unemployment Compensation Fund (a component unit reported as an expendable trust fund).

MOTOR VEHICLE ACCIDENT CLAIMS FUND

The Motor Vehicle Accident Claims Fund, established by P.A. 198 of 1965, was financed by a $45 fee for uninsured motor vehicles. The purpose of this fund has been diminished by P.A. 294 of 1972. This act implemented "no fault" insurance in Michigan and requires that the owner of each motor vehicle registered in Michigan be covered by the insurance specified in the act. Since October 1, 1973, the effective date of this act, the $45 fee for uninsured motorists has not been collected.

Currently, revenues are derived from installment repayments by uninsured motorists for claims and/or court judgments and from interest earnings. Claim settlements and administrative costs are appropriated in the General Fund where they are incorporated in the Department of State's budget. Transfers are made from the Motor Vehicle Accident Claims Fund to the General Fund to defray the cost of claims and administration.

Claims which have been settled but unreimbursed by uninsured motorists found at fault amounted to $13.1 million at September 30, 1988. Of this amount, approximately $10.4 million is anticipated to be uncollectable. Because of the poor history of recoveries of such settlements this amount has not been reflected in the financial statements by the recognition of revenue and the corresponding amount receivable.

SAFETY EDUCATION AND TRAINING FUND

This fund was established by P.A. 24 of 1977, as amended, under the jurisdiction of the Department of Labor. The act imposes an annual levy on each insurance carrier licensed to do workers' disability compensation business in the State, from the State Accident Fund, and from each self-insured employer. The act also provides for deposit of these assessments in the Safety Education and Training Fund to finance the Safety Education and Training Division of the Department of Labor. These funds are annually appropriated by the Legislature for operations. These expenditures occur in the General Fund and are financed by operating transfers from this fund.

STATE CONSTRUCTION CODE FUND

The State Construction Code Fund was created by P.A. 371 of 1980. Fees established by the Director of the Department of Labor, as approved by the Construction Code Commission, for acts and services performed by the commission are deposited in the fund. The fees received for building permit applications and other funds collected under this act are appropriated by the Legislature for the operation of the Bureau of Construction Codes and related indirect overhead expenditures. These expenditures are recorded in the General Fund with an operating transfer being made from this fund to finance them.

MICHIGAN JUSTICE TRAINING FUND

The Michigan Justice Training Fund was created by P.A. 302 of 1982 to support the activities of the Michigan Justice Training Commission. The Commission distributes funds to governmental units, including the Michigan Department of State Police, to provide for criminal justice training of police officers. Revenues are derived by an assessment on certain civil infractions. Expenditures reflect amounts provided to local units of government and most of the fund's administrative costs. Training costs of various State departments are recorded as expenditures in the General Fund and are financed by operating transfers from this fund.

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

The Homeowner Construction Lien Recovery Fund was established by P.A. 497 of 1980 to allow contractors, subcontractors, suppliers, and laborers to collect payments for work done if they have not been paid despite filing a residential lien. The fund is self-sustaining and is financed by fees assessed on builders, electrical and plumbing contractors, and laborers. Expenditures are appropriated for and recorded in the General Fund with financing provided by operating transfers from the fund.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT ADMS. FUND	MOTOR VEHICLE ACCIDENT CLAIMS FUND	SAFETY EDUCATION AND TRAINING FUND
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 36	$ -	$ 11
Equity in Common Cash	4,512	1,807	7,945
Amounts due from other funds	-	24	154
Amounts due from federal agencies	3,269	-	-
Amounts due from local units	73	-	-
Other current assets	253	-	114
Total Current Assets	8,144	1,832	8,225
Total Assets	$ 8,144	$ 1,832	$ 8,225
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding	$ 1,123	$ -	$ 1
Accounts payable and other liabilities	5,737	-	-
Amounts due to other funds	212	-	-
Deferred revenue	1,071	-	-
Total Current Liabilities	8,144	-	1
Total Liabilities	8,144	-	1
Fund Balances:			
Unreserved	-	1,832	8,224
Total Fund Balances	-0-	1,832	8,224
Total Liabilities and Fund Balances	$ 8,144	$ 1,832	$ 8,225

STATE CONSTRUCTION CODE FUND	MICHIGAN JUSTICE TRAINING FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	TOTALS	
			SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ 24	$ -	$ 1	$ 73	$ 220
5,509	5,516	2,881	28,173	27,697
115	-	55	350	268
-	-	-	3,269	4,909
-	-	-	73	229
47	906	-	1,321	1,118
5,697	6,423	2,938	33,262	34,444
$ 5,697	$ 6,423	$ 2,938	$ 33,262	$ 34,444
$ 4	$ 2	$ -	$ 1,131	$ 459
8	1,936	-	7,682	7,799
-	-	-	212	353
-	-	-	1,071	3,813
12	1,938	-	10,098	12,426
12	1,938	-	10,098	12,426
5,685	4,484	2,938	23,164	22,018
5,685	4,484	2,938	23,164	22,018
$ 5,697	$ 6,423	$ 2,938	$ 33,262	$ 34,444

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT ADMS. FUND	MOTOR VEHICLE ACCIDENT CLAIMS FUND	SAFETY EDUCATION AND TRAINING FUND
REVENUES			
From federal agencies	$ 120,403	$ -	$ -
From local agencies	1,391	-	-
From licenses and permits	-	-	-
Miscellaneous	102	365	3,022
Total Revenues	121,896	365	3,023
EXPENDITURES			
Current:			
General government	-	-	-
Labor, commerce, and regulatory	117,126	-	-
Debt service:			
Capital lease payments	2,496	-	-
Total Expenditures	119,623	-	-
Excess of Revenues over (under) Expenditures	2,272	365	3,023
OTHER FINANCING SOURCES (USES)			
Capital lease acquisitions	-	-	-
Operating transfers in	2,724	-	-
Operating transfers out	(4,997)	(390)	(2,949)
Total Other Financing Sources (Uses)	(2,272)	(390)	(2,948)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	(24)	74
Fund Balances - Beginning of fiscal year	-0-	1,856	8,149
Fund Balances - End of fiscal year	$ -0-	$ 1,832	$ 8,224

STATE CONSTRUCTION CODE FUND	MICHIGAN JUSTICE TRAINING FUND	HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	TOTALS FISCAL YEARS ENDED SEPTEMBER 30, 1988	TOTALS FISCAL YEARS ENDED SEPTEMBER 30, 1987
$ -	$ -	$ -	$ 120,401	$ 108,253
-	-	-	1,391	1,882
5,170	-	-	5,170	4,940
440	6,142	448	10,521	10,437
5,611	6,142	448	137,487	125,513
-	4,397	-	4,397	4,474
-	-	-	117,126	107,988
-	-	-	2,496	3,492
-	4,397	-	124,020	115,955
5,611	1,744	448	13,466	9,558
-	-	-	-	154
-	-	-	2,725	4,695
(4,680)	(1,622)	(406)	(15,046)	(13,282)
(4,679)	(1,622)*	(406)	(12,320)	(8,432)
931	122	41	1,145	1,125
4,753	4,361	2,896	22,018	20,892
$ 5,685	$ 4,484	$ 2,938	$ 23,164	$ 22,018

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
SPECIAL REVENUE FUNDS – REGULATORY AND ADMINISTRATIVE RELATED
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN EMPLOYMENT SECURITY ACT ADMINISTRATION FUND		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
From federal agencies	$ 112,000	$ 120,403	$ 8,403
From local agencies	–	1,391	1,391
From licenses and permits	–	–	–
Miscellaneous	–	102	102
Operating transfers in	3,500	2,724	(775)
Total Revenues and Other Sources	115,500	124,620	9,120
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES – BY DEPARTMENT			
Management and Budget	–	–	–
State	–	–	–
Labor	124,620	124,620	–
Total Expenditures, Operating Transfers Out, and Encumbrances	124,620	124,620	–
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ (9,120)	–	$ 9,120
Reconciling Items:			
Funds not annually budgeted		–	
Net Reconciling Items		–	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		–	
FUND BALANCES (GAAP BASIS)			
Beginning balances		-0-	
Ending balances (GAAP Basis)		$ -0-	

MOTOR VEHICLE ACCIDENT CLAIMS FUND			SAFETY EDUCATION AND TRAINING FUND			STATE CONSTRUCTION CODE FUND		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	4,000	5,170	1,170
400	365	(34)	2,500	3,022	522	100	440	340
–	–	–	–	–	–	–	–	–
400	366	(33)	2,500	3,024	524	4,100	5,611	1,511
–	–	–	–	–	–	–	–	–
1,022	390	631	–	–	–	–	–	–
–	–	–	3,007	2,949	58	4,977	4,680	297
1,022	390	631	3,007	2,949	58	4,977	4,680	297
$ (622)	(24)	$ 597	$ (507)	74	$ 582	$ (877)	931	$ 1,809
	–			–			–	
	–			–			–	
	(24)			74			931	
	1,856			8,149			4,753	
	$ 1,832			$ 8,224			$ 5,685	

This schedule continued on next page.

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS - REGULATORY AND ADMINISTRATIVE RELATED (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN JUSTICE TRAINING FUND		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
From federal agencies	$ -	$ -	$ -
From local agencies	-	-	-
From licenses and permits	-	-	-
Miscellaneous	6,100	6,142	42
Operating transfers in	-	-	-
Total Revenues and Other Sources	6,100	6,142	42
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY DEPARTMENT			
Management and Budget	6,504	6,020	484
State	-	-	-
Labor	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	6,504	6,020	484
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ (404)	122	$ 526
Reconciling Items:			
Funds not annually budgeted		-	
Net Reconciling Items		-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		122	
FUND BALANCES (GAAP BASIS)			
Beginning balances		4,361	
Ending balances (GAAP Basis)		$ 4,484	

FUND NOT ANNUALLY BUDGETED			
HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND	TOTALS		
ACTUAL	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ -	$ 112,000	$ 120,403	$ 8,403
-	-	1,391	1,391
-	4,000	5,170	1,170
-	9,100	10,073	973
-	3,500	2,725	(774)
-	128,600	139,765	11,165
-	6,504	6,020	484
-	1,022	390	631
-	132,605	132,250	355
-	140,132	138,661	1,471
-	$ (11,532)	1,104	$ 12,636
41		41	
41		41	
41		1,145	
2,896		22,018	
$ 2,938		$ 23,164	

STATE OF MICHIGAN

DESCRIPTIONS OF SPECIAL REVENUE FUNDS – OTHER STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

COUNTER-CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, which is commonly referred to as the Budget Stabilization Fund, was created by P.A. 76 of 1977 to assist in stabilizing revenue and employment during periods of economic recession and high unemployment. In general, transfers are made into this fund from the General Fund during improving economic times and funds flow from this fund to the General Fund in times of declining economy. In the event that the fund balance at year end exceeds 25% of the actual General Fund general purpose revenue for the fiscal year, the law provides that the excess be rebated on the individual income tax returns filed in the following fiscal year.

Amounts transferred to the fund are limited to actual appropriations made annually by the Legislature. Such appropriations may be based on a formula that is dependent on the annual growth rate as defined by the statute. The balances in the fund are held in the State's common cash pool and interest earnings are credited as revenues of the fund.

Transfers from the fund are based upon a formula which is dependent upon unemployment rates; however, under certain conditions the Legislature may override the formula and make limited appropriations from the fund for capital outlay projects. Amounts reported on the balance sheet as reserved for multi-year projects represent amounts which have been appropriated for capital outlay programs in the General Fund, but for which expenditures have not yet been incurred. These reserves will be transferred to the General Fund as the expenditures are made.

MICHIGAN VETERANS' TRUST FUND

This fund was created by P.A. 9 of 1946 (First Extra Session) to finance programs to assist veterans and their beneficiaries. It is administered within the Department of Management and Budget and is governed by a six member board of trustees. Resources are provided by investment and common cash earnings and by transfers from the General Fund (described below). Expenditures and transfers out reflect grants to veterans and their widows or dependents and administrative costs at both the State and local level.

When the fund was created, investments of $50.0 million were transferred to it to be used to generate income for the fund. The amounts reserved for investment have, by statute, been periodically transferred back (in 1959 and 1976) to the General Fund. The statutes authorizing these transfers have provided for an annual schedule of future appropriations to be made from the General Fund so that the investment reserve is restored to its original level and the annual operating needs of the trust fund are met. This is described in the "Interfund Commitments" note to the General Purpose Financial Statements.

SCHOOL AID FUND

This fund was created in 1955 by an amendment to the 1908 Constitution. Its continued existence was provided for by the 1963 Constitution. Its purpose is to furnish aid to school districts and provide financing for the Public School Employees' Retirement System. The principal sources of financing are the constitutional dedication of sixty percent of total State sales tax revenue, statutory levies of a one mill cigarette tax, a four percent liquor excise tax, industrial and commercial facilities taxes, annual transfers from the General Fund, and transfers from the State Lottery Fund. Payments of aid to school districts are based on a statutory formula. If dedicated tax and other revenues of the fund are not sufficient, statutes require the deficiency to be appropriated from the General Fund.

VIETNAM VETERAN ERA BONUS FUND

This fund was established by P.A. 370 of 1974, as amended, to account for the proceeds of $205 million authorized general obligation bonds approved by the people in November, 1974, to provide a service bonus to veterans, or their beneficiaries, who served in the armed forces of the United States between January 1, 1961 and September 1, 1973. Applications for benefits under this act were to be filed or received before September 30, 1980.

SCHOOL BOND LOAN FUND

The 1963 Constitution (Art. IX, Sec. 16) and P.A. 74 of 1955 authorized the issuance of State general obligation bonds to provide funds for loans to school districts. Loans are made for the payment of principal and interest on school district bonds under prescribed circumstances. The unreserved fund balance of this fund represents the amount available for making additional loans.

The proceeds of State bonds, as well as bond anticipation notes, are credited to the fund as an "Other Financing Source." When loans are made, operating transfers are recorded to the School Loan Bond Redemption Fund, the debt service fund which receives loan payments and services the State's bonds. The loans receivable are recorded as assets in the debt service fund.

As explained more fully in the "Accounting Changes" note to the General Purpose Financial Statements, the accounting methods described above have been changed from those used in prior years.

CHILDREN'S TRUST FUND

The Children's Trust Fund was established by P.A. 249 of 1982 to support the State Child Abuse and Neglect Prevention Board. Established under P.A. 250 of 1982, the purpose of the board is to coordinate and fund activities for the prevention of child abuse and neglect in the State.

Revenues are derived from taxpayer donations made on the individual's income tax return, other gifts, interest earnings, and grants from the federal government. One half of the donations made on income tax returns are placed in a trust corpus. When the total assets of the fund exceed $20 million, the earnings credited to the fund will be available for disbursement. Until that time, the amount available for disbursement is limited to 1/2 of tax refund designations, all additional donations and grants, and interest earnings credited to the fund in previous years.

STATE BUILDING AUTHORITY ADVANCE FINANCING FUND

This fund was administratively established in 1987-88 to account for expenditures which had been incurred for higher education related projects prior to the issuance of State Building Authority bonds. Appropriation acts allow the General Fund to provide temporary financing of such expenditures for legislatively authorized projects. Disbursements on behalf of the State Building Authority were recorded as receivables in General Fund accounts. At year-end, a liability to the General Fund and expenditures were recorded in this fund because the Authority had not issued bonds for related projects. Accounts payable related to these projects were also recorded in this fund.

The State Building Authority in its statements does not recognize liabilities for these projects until bonds are issued; therefore, no receivable from the Authority is recognized in this fund. This results in the fund showing a year-end fund balance deficit. When the Authority issues its bonds and reimburses the State, the Authority will reimburse this fund by recording an operating transfer. The fund will then reimburse the General Fund and the deficit will be eliminated. Subsequent to year-end, the Authority was in the process of issuing bonds to fund these projects.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS – OTHER STATE FUNDS
SEPTEMBER 30, 1988
(In Thousands)

	COUNTER-CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	MICHIGAN VETERANS' TRUST FUND	SCHOOL AID FUND	VIETNAM VETERAN ERA BONUS FUND
ASSETS				
Current Assets:				
Cash and cash equivalents	$ –	$ 1	$ –	$ –
Equity in Common Cash	384,945	4,729	–	1,320
Taxes, interest, and penalties receivable	–	–	139,948	–
Amounts due from other funds	8,143	272	–	–
Amounts due from federal agencies	–	–	–	–
Amounts due from local units	–	323	790	–
Other current assets	–	826	154	–
Total Current Assets	393,068	6,153	140,892	1,320
Taxes, interest, and penalties receivable	–	–	3,209	–
Advances to other funds	–	4,953	–	–
Amounts due from local units	–	–	9,433	–
Investments	–	23,823	–	–
Total Assets	$ 393,088	$ 34,929	$ 153,535	$ 1,320
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Liability to Common Cash	$ –	$ –	$ 137,125	$ –
Warrants outstanding	–	1	913	–
Accounts payable and other liabilities	–	234	2,853	–
Amounts due to other funds	–	–	–	–
Total Current Liabilities	–	235	140,892	–
Long-Term Liabilities:				
Deferred revenue	–	–	3,209	–
Total Liabilities	–	235	144,102	–
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Encumbrances	–	–	–	–
Restricted revenues	–	841	–	–
Multi-year projects	11,863	–	–	–
Funds held as permanent investments	–	32,010	–	–
Noncurrent assets	–	–	9,433	–
Total Reserved	11,863	32,851	9,433	–
Unreserved	381,224	1,842	–	1,320
Total Fund Balances	393,088	34,694	9,433	1,320
Total Liabilities and Fund Balances	$ 393,088	$ 34,929	$ 153,535	$ 1,320

SCHOOL BOND LOAN FUND	CHILDREN'S TRUST FUND	STATE BUILDING AUTHORITY ADVANCE FINANCING FUND	TOTALS	
			SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ -	$ -	$ -	$ 1	$ 2
30	1,045	-	392,071	397,799
-	-	-	139,948	133,564
-	28	-	8,444	6,701
-	-	-	-	275
-	-	-	1,113	440
-	67	-	1,048	631
30	1,141	-	542,627	539,415
-	-	-	3,209	2,757
-	-	-	4,953	2,015
-	-	-	9,433	9,238
-	1,864	-	25,687	14,980
$ 30	$ 3,005	$ -0-	$ 585,911	$ 568,407
$ -	$ -	$ -	$ 137,125	$ 132,693
-	2	-	917	129
-	49	448	3,586	1,512
-	-	4,098	4,098	-
-	52	4,547	145,729	134,335
-	-	-	3,209	2,757
-	52	4,547	148,938	137,093
-	7	-	7	41
-	-	-	841	773
-	-	-	11,863	32,307
-	2,597	-	34,607	29,152
-	-	-	9,433	11,254
-	2,604	-	56,753	73,528
30	347	(4,547)	380,219	357,785
30	2,952	(4,547)	436,972	431,313
$ 30	$ 3,005	$ -0-	$ 585,911	$ 568,407

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	COUNTER-CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	MICHIGAN VETERANS' TRUST FUND	SCHOOL AID FUND	VIETNAM VETERAN ERA BONUS FUND
REVENUES				
Taxes	$ -	$ -	$ 1,595,222	$ -
From federal agencies	-	-	41,623	-
From local agencies	-	-	689	-
Miscellaneous	29,181	2,572	-	-
Total Revenues	29,181	2,572	1,637,535	-
EXPENDITURES				
Current:				
General government	-	5,016	-	-
Education	-	-	2,729,340	-
Public safety and corrections	-	-	-	-
Total Expenditures	-	5,016	2,729,340	-
Excess of Revenues over (under) Expenditures	29,181	(2,443)	(1,091,804)	-
OTHER FINANCING SOURCES (USES)				
Proceeds from bond and bond anticipation note issues	-	-	-	-
Operating transfers in:				
From State Lottery Fund	-	-	488,436	-
From other funds	-	9,129	603,562	-
Total operating transfers in	-	9,129	1,091,999	-
Operating transfers out	(20,443)	(3,207)	-	-
Total Other Financing Sources (Uses)	(20,443)	5,921	1,091,999	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	8,737	3,478	195	-
Fund Balances - Beginning of fiscal year	384,350	31,215	9,238	1,320
Fund Balances - End of fiscal year	$ 393,088	$ 34,694	$ 9,433	$ 1,320

SCHOOL BOND LOAN FUND	CHILDREN'S TRUST FUND	STATE BUILDING AUTHORITY ADVANCE FINANCING FUND	TOTALS FISCAL YEARS ENDED SEPTEMBER 30, 1988	 SEPTEMBER 30, 1987
$ -	$ -	$ -	$ 1,595,222	$ 1,528,473
-	496	-	42,119	41,196
-	-	-	689	746
-	1,274	-	33,028	27,709
-	1,770	-	1,671,060	1,598,126
-	1,333	-	6,350	5,906
-	-	4,547	2,733,887	2,554,161
-	-	-	-	1
-	1,333	4,547	2,740,237	2,560,068
-	436	(4,547)	(1,069,176)	(961,942)
300	-	-	300	-
-	-	-	488,436	407,055
-	20	-	612,712	585,997
-	20	-	1,101,148	993,052
(2,948)	(13)	-	(26,613)	(30,037)
(2,648)	6	-	1,074,835	963,015
(2,648)	442	(4,547)	5,658	1,072
2,678	2,509	-0-	431,313	430,240
$ 30	$ 2,952	$ (4,547)	$ 436,972	$ 431,313

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - SPECIAL REVENUE FUNDS - OTHER STATE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

Statutory/Budgetary Basis	COUNTER-CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	$ -	$ -	$ -
From federal agencies	-	-	-
From local agencies	-	-	-
Miscellaneous	25,900	29,181	3,281
Operating transfers in	-	-	-
Total Revenues and Other Sources	25,900	29,181	3,281
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES - BY DEPARTMENT			
Management and Budget	20,443	20,443	-
Education	-	-	-
Total Expenditures, Operating Transfers Out, and Encumbrances	20,443	20,443	-
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ 5,456	8,737	$ 3,281
Reconciling Items:			
Encumbrances at September 30		-	
Funds not annually budgeted		-	
Net Reconciling Items		-	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		8,737	
FUND BALANCES (GAAP BASIS)			
Beginning balances		384,350	
Ending balances (GAAP Basis)		$ 393,088	

MICHIGAN VETERANS' TRUST FUND			SCHOOL AID FUND		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ -	$ -	$ -	$ 1,595,100	$ 1,595,222	$ 122
-	-	-	42,000	41,623	(376)
-	-	-	800	689	(110)
2,100	2,572	472	-	-	-
9,200	9,129	(70)	1,092,300	1,091,999	(300)
11,300	11,702	402	2,730,200	2,729,535	(664)
9,018	8,224	793	-	-	-
-	-	-	2,726,873	2,729,340	(2,466)
9,018	8,224	793	2,726,873	2,729,340	(2,466)
$ 2,281	3,478	$ 1,196	$ 3,326	195	$ (3,131)
	-			-	
	-			-	
	-			-	
	3,478			195	
	31,215			9,238	
	$ 34,694			$ 9,433	

This schedule continued on next page.

STATE OF MICHIGAN
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS – OTHER STATE FUNDS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	CHILDREN'S TRUST FUND		
Statutory/Budgetary Basis	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES AND OTHER SOURCES			
Taxes	$ –	$ –	$ –
From federal agencies	–	496	496
From local agencies	–	–	–
Miscellaneous	1,500	1,274	(225)
Operating transfers in	–	20	20
Total Revenues and Other Sources	1,500	1,790	290
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES – BY DEPARTMENT			
Management and Budget	2,104	1,354	749
Education	–	–	–
Total Expenditures, Operating Transfers Out, and Encumbrances	2,104	1,354	749
Revenues and Other Sources over (under) Expenditures, Encumbrances, and Other Uses (Statutory/budgetary basis)	$ (604)	435	$ 1,039
Reconciling Items:			
Encumbrances at September 30		7	
Funds not annually budgeted		–	
Net Reconciling Items		7	
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (GAAP Basis)		442	
FUND BALANCES (GAAP BASIS)			
Beginning balances		2,509	
Ending balances (GAAP Basis)		$ 2,952	

FUNDS NOT ANNUALLY BUDGETED			TOTALS		
VIETNAM VETERAN ERA BONUS FUND	SCHOOL BOND LOAN FUND	STATE BUILDING AUTHORITY ADVANCE FINANCING FUND			
ACTUAL	ACTUAL	ACTUAL	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ –	$ –	$ –	$ 1,595,100	$ 1,595,222	$ 122
–	–	–	42,000	42,119	119
–	–	–	800	689	(110)
–	–	–	29,500	33,028	3,528
–	–	–	1,101,500	1,101,149	(351)
–	–	–	2,768,900	2,772,208	3,308
–	–	–	31,565	30,022	1,543
–	–	–	2,726,873	2,729,340	(2,466)
–	–	–	2,758,438	2,759,362	(923)
–	–	–	$ 10,461	12,846	$ 2,385
–	–	–		7	
–	(2,648)	(4,547)		(7,195)	
–	(2,648)	(4,547)		(7,187)	
–	(2,648)	(4,547)		5,658	
1,320	2,678	-0-		431,313	
$ 1,320	$ 30	$ (4,547)		$ 436,972	

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STATE OF MICHIGAN

DESCRIPTIONS OF SPECIAL REVENUE FUNDS - COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition and renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of state equipment; however, no bonds of this nature have yet been issued. The five members of the Authority are appointees of the Governor. Authority projects which are in process but not yet completed are reflected in either a capital projects fund (state buildings) or a special revenue fund (buildings for institutions of higher education). Transactions related to completed projects are reported in a debt service fund, and bonds payable are reported in the General Long-Term Obligations Account Group.

The special revenue fund, which accounts for construction costs for higher education projects, reports bond proceeds as an "other financing source," investment revenue earned during construction as "miscellaneous revenue," and construction expenditures as grant expenditures. Operating transfers out reflect transfers to the debt service fund of proceeds dedicated for debt service and the transfer of assets remaining after a project's completion to the debt service fund.

MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY

Public Act 295 of 1969, as amended, authorized the creation of the Michigan Higher Education Facilities Authority for the purpose of assisting private nonprofit institutions of higher education in financing their facilities. The Authority consists of an eleven member commission, nine of whom are appointed by the Governor with the advice and consent of the Senate and two of whom are ex officio (the Superintendent of Public Instruction and Director of the Department of Management and Budget). Financing for capital improvements is provided by issuance of limited obligation revenue bonds, which are not recorded as liabilities of the Authority. The footnote to the General Purpose Financial Statements entitled "General Long-Term Obligations" explains these more fully.

MICHIGAN FAMILY FARM DEVELOPMENT AUTHORITY

The Michigan Family Farm Development Authority was created by P.A. 220 of 1982 to assist beginning farmers in financing the purchase of agricultural land and equipment. Members of the Authority are appointed by the Governor. Financing for the loans to beginning farmers is provided by issuance of limited obligation revenue bonds, which are not recorded as liabilities of the Authority because of their nature. The footnote to the General Purpose Financial Statements entitled "General Long-Term Obligations" explains these more fully. The Authority's administrative operations, which are reflected in these statements, are financed by loan application and issuance fees and subsidies from the General Fund as appropriated within the Department of Agriculture.

MACKINAC BRIDGE AUTHORITY

The Authority was created by P.A. 21 of 1950. Public Act 214 of 1952, as amended, empowered the Authority to construct and operate a bridge between the lower peninsula of Michigan and the upper peninsula. Financing for the operation and maintenance of the bridge is provided by fares and earnings on investments. State statutes require that the Authority continue charging bridge tolls and begin repaying State funds for all the subsidies provided in prior years. The Authority has not recorded a liability and the State funds have not recorded receivables for the subsidies because the reimbursements are contingent upon future net revenues and the repayment commitment is long-term and budgetary in nature. In prior years, the Authority has been reported using a June 30 year-end. Effective this year, the Authority has changed to a September 30 fiscal year-end and the amounts reflected in this report are for the fifteen months ending September 30, 1988.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS - COMPONENT UNITS
SEPTEMBER 30, 1988
(In Thousands)

	STATE BUILDING AUTHORITY	MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY	MICHIGAN FAMILY FARM DEVELOPMENT AUTHORITY
ASSETS			
Current assets:			
Cash and cash equivalents	$ 502	$ 1	$ 42
Amounts due from other funds	-	107	-
Amounts due from local units	-	-	-
Investments	45,915	-	-
Other current assets	745	5	-
Total Current Assets	47,163	114	42
Investments	8,358	-	-
Total Assets	$ 55,522	$ 114	$ 42
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Accounts payable and other liabilities	$ 17,249	$ 64	$ -
Amounts due to other funds	6,479	-	-
Deferred revenue	-	-	-
Total Current Liabilities	23,728	64	-
Long-Term Liabilities:			
Deferred revenue	-	-	-
Total Liabilities	23,728	64	-
Fund Balances:			
Reserves for:			
Construction and debt service	31,794	-	-
Total Reserved	31,794	-	-
Unreserved	-	50	42
Total Fund Balances	31,794	50	42
Total Liabilities and Fund Balances	$ 55,522	$ 114	$ 42

	TOTALS	
MACKINAC BRIDGE AUTHORITY	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ 309	$ 856	$ 2,725
-	107	557
-	-	17
11,233	57,148	44,815
245	996	583
11,787	59,109	48,699
-	8,358	1,940
$ 11,787	$ 67,467	$ 50,639
$ 288	$ 17,601	$ 8,001
343	6,823	6,239
63	63	155
695	24,488	14,395
89	89	-
785	24,577	14,395
-	31,794	28,994
-	31,794	28,994
11,002	11,095	7,248
11,002	42,890	36,243
$ 11,787	$ 67,467	$ 50,639

STATE OF MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS – COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	STATE BUILDING AUTHORITY	MICHIGAN HIGHER EDUCATION FACILITIES AUTHORITY	MICHIGAN FAMILY FARM DEVELOPMENT AUTHORITY
REVENUES			
From services	$ –	$ 63	$ –
From licenses and permits	–	–	–
Miscellaneous	2,888	–	2
Total Revenues	2,888	63	2
EXPENDITURES			
Current:			
Education	71,071	63	–
Conservation, recreation, and agriculture	–	–	18
Transportation	–	–	–
Total Expenditures	71,071	63	18
Excess of Revenues over (under) Expenditures	(68,182)	–	(15)
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issues	77,216	–	–
Operating transfers in	–	–	18
Operating transfers out	(6,234)	–	–
Total Other Financing Sources (Uses)	70,982	–	18
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	2,799	–	2
Fund Balances – Beginning of fiscal year	28,994	50	40
Equity transfers from other funds	–	–	–
Fund Balances – End of fiscal year	$ 31,794	$ 50	$ 42

	TOTALS	
	FISCAL YEARS ENDED	
MACKINAC BRIDGE AUTHORITY	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ -	$ 63	$ 91
8,382	8,382	5,392
729	3,620	2,376
9,112	12,067	7,860
-	71,135	31,422
-	18	20
5,267	5,267	3,716
5,267	76,421	35,159
3,844	(64,353)	(27,298)
-	77,216	75,266
-	18	20
-	(6,234)	(24,153)
-	71,000	51,134
3,844	6,646	23,835
7,158	36,243	11,872
-	-	535
$ 11,002	$ 42,890	$ 36,243

STATE OF MICHIGAN

DESCRIPTIONS OF DEBT SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all State Trunkline Fund related bond issues. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for transportation purposes by Section 9 of Article IX of the Michigan Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

WATER POLLUTION CONTROL BOND AND INTEREST REDEMPTION FUND

Public Act 329 of 1966 established this fund to account for the retiring of bond issues of the Water Pollution Control Bond Fund. The Legislature appropriates funds from the General Fund to meet the bond principal and interest requirements and paying agent fees.

COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 51 of 1951, as amended, to account for debt service on all Comprehensive Transportation Fund related bond issues. The bonds are not general obligations of the State but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Section 9 of Article IX of the Michigan Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

PUBLIC RECREATION BOND AND INTEREST REDEMPTION FUND

This fund was established pursuant to P.A. 108 of 1969 and services bond issues of the Public Recreation Bond Fund. Financing of debt retirement, interest expense, and paying agent fees is provided by annual legislative appropriation from the General Fund.

VIETNAM VETERAN ERA BONUS BOND REDEMPTION FUND

Created by P.A. 370 of 1974, the purpose of this fund is to account for the debt service of general obligation bonds which were issued to finance bonuses paid to veterans or their beneficiaries. Financing is provided by an annual appropriation in the General Fund.

SCHOOL LOAN BOND REDEMPTION FUND

Public Act 74 of 1955 established this fund to account for debt service on general obligation bonds issued to finance loans to local school districts. The School Bond Loan Fund, a special revenue fund, receives the State bond proceeds and makes the loans. Because loan repayments accrue first to this debt service fund, an operating transfer is recorded to this fund when loans are made and the receivables are recorded as debt service fund assets.

The unreserved fund balance of this fund represents amounts currently available for debt service. Because there are no specific timetables for repayment, the entire balance of loans and accrued interest receivable is classified as a long-term asset. Fund balance is fully reserved for the amount of principal receivable. Recognition of interest income is deferred because it is not available, which results in the amount recorded as long-term deferred revenue on the balance sheet. A statutory formula prescribes that loan repayments are first used to meet debt service requirements. If loan repayments exceed statutorily prescribed debt service requirements, the excess is transferred to the School Bond Loan Fund where it can be used to finance new loans. When debt service requirements exceed the amounts provided by loan repayments, the excess is funded by a transfer from the General Fund.

As more fully explained in the "Accounting Changes" note to the General Purpose Financial Statements, loans to local school districts were recorded as fund assets this year for the first time.

STATE PARK REVENUE BOND FUND

This fund was created pursuant to P.A. 149 of 1960 which initiated a State park improvement program by authorizing the Department of Natural Resources to issue up to $10 million of revenue dedicated bonds to finance land acquisition, construction, and improvement of State parks. Public Act 286 of 1967 increased the authorized amount of such bonds to $20 million.

Public Act 149 of 1960, as amended, also provides that park permit fees for motor vehicle entry into certain State parks be deposited with the State Treasurer who is designated as fiscal agent. Such proceeds are to be allocated in the following order of priority: debt service requirements, fiscal agent expenses, bond reserve, operations and park improvements. Operating transfers out of this fund consist mainly of amounts transferred to the State Park Improvement Fund to finance park operations and improvements as appropriated by the Legislature.

STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition or renovation of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of state equipment; however, no bonds of this nature have yet been issued. Construction projects which are in process are reported in either a capital projects fund or a special revenue fund. Balances related to completed projects, as well as amounts set aside for debt service on in-process projects, are reported in this debt service fund. Bonds payable are included in the General Long-Term Obligations Account Group.

Each project of the Authority is financed by specific callable bonds, the proceeds of which can only be used for construction and debt service on that project. For completed projects, the resources to finance bond interest and redemption are provided by operating transfers from the General Fund and from investments and earnings of this fund. During construction, debt service requirements are financed by a portion of the bond proceeds which are dedicated for that purpose. When a project is completed, the remaining net assets are transferred to this fund where they are invested and used for debt service.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
SEPTEMBER 30, 1988
(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	WATER POLLUTION CONTROL BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	PUBLIC RECREATION BOND AND INTEREST REDEMPTION FUND
ASSETS				
Current Assets:				
Cash and cash equivalents............	$ -	$ -	$ -	$ -
Equity in Common Cash................	17	-	2	-
Amounts due from other funds.........	-	-	6	-
Investments..........................	-	-	-	-
Other current assets.................	-	-	94	-
Total Current Assets.................	18	-	102	-
Amounts due from local units...........	-	-	-	-
Investments............................	-	-	-	-
Total Assets.........................	$ 18	$ -0-	$ 102	$ -0-
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts payable and other liabilities.......................	$ -	$ -	$ -	$ -
Amounts due to other funds...........	-	-	-	-
Total Current Liabilities...........	-	-	-	-
Long Term Liabilities:				
Deferred revenue.....................	-	-	-	-
Total Liabilities..................	-	-	-	-
Fund Balances:				
Reserves for:				
Budgetary carry-forwards:				
Restricted revenues..............	-	-	-	-
Noncurrent assets..................	-	-	-	-
Total Reserved.....................	-	-	-	-
Unreserved...........................	18	-	102	-
Total Fund Balances................	18	-0-	102	-0-
Total Liabilities and Fund Balances.	$ 18	$ -0-	$ 102	$ -0-

VIETNAM VETERAN ERA BONUS BOND REDEMPTION FUND	SCHOOL LOAN BOND REDEMPTION FUND	STATE PARK REVENUE BOND FUND	STATE BUILDING AUTHORITY	TOTALS	
				SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ -	$ -	$ -	$ 1,396	$ 1,396	$ 2,232
-	3,953	-	-	3,973	2,426
-	-	80	1,922	2,009	5,747
-	-	1,474	146,236	147,710	120,128
-	-	1,628	2,373	4,096	3,189
-	3,953	3,183	151,928	159,186	133,723
-	121,134	-	-	121,134	119,238
-	-	179	70,177	70,357	71,909
$ -0-	$ 125,087	$ 3,362	$ 222,106	$ 350,677	$ 324,871
$ -	$ -	$ -	$ -	$ -	$ 3
-	-	-	-	-	4,422
-	-	-	-	-	4,425
-	46,693	-	-	46,693	43,899
-	46,693	-	-	46,693	48,324
-	-	393	-	393	348
-	74,440	-	-	74,440	75,339
-	74,440	393	-	74,833	75,688
-	3,953	2,969	222,106	229,150	200,858
-0-	78,393	3,362	222,106	303,983	276,547
$ -0-	$ 125,087	$ 3,362	$ 222,106	$ 350,677	$ 324,871

*The prior year column was restated for the effect of a change in accounting for school bond loans.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND	WATER POLLUTION CONTROL BOND AND INTEREST REDEMPTION FUND	COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND	PUBLIC RECREATION BOND AND INTEREST REDEMPTION FUND
REVENUES				
From licenses and permits	$ –	$ –	$ –	$ –
Miscellaneous	1	–	24	–
Total Revenues	1	–	24	–
EXPENDITURES				
Current:				
General government	–	–	–	–
Debt Service:				
Bond principal retirement	9,540	16,000	5,730	1,000
Bond interest and fiscal charges	14,152	6,198	15,971	71
Total Expenditures	23,692	22,198	21,701	1,071
Excess of Revenues over (under) Expenditures	(23,691)	(22,198)	(21,676)	(1,071)
OTHER FINANCING SOURCES (USES)				
Proceeds from refunding bond issue	–	–	104,376	–
Payment to refunded bond escrow agent	–	–	(104,174)	–
Operating transfers in	23,692	22,198	21,577	1,071
Operating transfers out	–	–	–	–
Total Other Financing Sources (Uses)	23,692	22,198	21,779	1,071
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	1	–	102	–
Fund Balances – Beginning of fiscal year – as previously reported	16	-0-	-0-	-0-
Effect of accounting change	–	–	–	–
Fund Balances – Beginning of fiscal year – restated	16	-0-	-0-	-0-
Equity transfers from other funds	–	–	–	–
Equity transfers to other funds	–	–	–	–
Fund Balances – End of fiscal year	$ 18	$ -0-	$ 102	$ -0-

				TOTALS	
				FISCAL YEARS ENDED	
VIETNAM VETERAN ERA BONUS BOND REDEMPTION FUND	SCHOOL LOAN BOND REDEMPTION FUND	STATE PARK REVENUE BOND FUND	STATE BUILDING AUTHORITY	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ -	$ -	$ 5,900	$ -	$ 5,900	$ 5,681
-	5,596	259	15,137	21,019	16,531
-	5,596	6,159	15,137	26,919	22,212
	-	-	158	158	121
5,000	6,500	845	34,274	78,889	77,949
736	1,403	529	53,463	92,527	88,081
5,736	7,903	1,374	87,896	171,575	166,152
(5,736)	(2,306)	4,784	(72,758)	(144,655)	(143,939)
-	-	-	-	104,376	-
-	-	-	-	(104,174)	-
5,736	2,948	-	99,272	176,497	210,362
-	-	(4,607)	-	(4,607)	(5,744)
5,736	2,948	(4,607)	99,272	172,092	204,617
-	641	177	26,513	27,436	60,678
-0-	2,412	3,184	195,593	201,207	141,277
-	75,339	-	-	75,339	75,127
-0-	77,752	3,184	195,593	276,547	216,404
-	-	-	-	-	824
-	-	-	-	-	(1,359)
$ -0-	$ 78,393	$ 3,362	$ 222,106	$ 303,983	$ 276,547

*The prior year column was restated for the effect of a change in accounting for school bond loans.

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STATE OF MICHIGAN

DESCRIPTIONS OF CAPITAL PROJECTS FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

PUBLIC RECREATION BOND FUND

This fund was established by P.A. 108 of 1969 to account for the proceeds of $100.0 million general obligation public recreation bonds approved by the people in November, 1968. This approval was pursuant to Section 15, Article IX, of the 1963 Constitution and P.A. 257 of 1968.

Public Act 108 of 1969 also allocated $30.0 million for grants to local units for local community recreational projects and the balance of $70.0 million to the Department of Natural Resources to fund the State's recreation program.

STATE BUILDING AUTHORITY

The State Building Authority was created pursuant to P.A. 183 of 1964, as amended, to issue bonds to finance the acquisition of buildings for use by the State or public institutions of higher education. Public Act 248 of 1988 also permits Authority bonding of state equipment; however, bonds of this nature have not yet been issued. The five members of the Authority are appointees of the Governor. Authority projects which are in process but not yet completed are reflected in either a capital projects fund (State buildings) or a special revenue fund (buildings for institutions of higher education). Completed projects are in a debt service fund, and bonds payable are reported in the General Long-Term Obligations Account Group.

This capital projects fund, which accounts for the construction of State projects, reports bond proceeds as an "Other financing source," investment revenue during construction as "miscellaneous revenue," and construction expenditures as "Capital outlay." Operating transfers out reflect transfers to the debt service fund of proceeds dedicated for debt service during construction and the transfer of net assets remaining after the completion of a project to the debt service fund. In the State's General Fixed Assets Account Group, accumulated expenditures for incomplete State projects are reflected as "Construction in progress" and completed State projects are recorded as "Buildings."

STATE BUILDING AUTHORITY ADVANCE FINANCING FUND

This fund was administratively established in 1987-88 to account for expenditures which had been incurred for State projects prior to the issuance of State Building Authority bonds. Appropriation acts allow the General Fund to provide temporary financing of such expenditures for legislatively authorized projects. Disbursements on behalf of the State Building Authority were recorded as receivables in General Fund accounts. At year-end, a liability to the General Fund and expenditures were recorded in this fund because the Authority had not issued bonds for related projects. Accounts payable related to these projects were also recorded in this fund.

The State Building Authority in its statements does not recognize liabilities for these projects until bonds are issued; therefore, no receivable from the Authority is recognized in this fund. This results in the fund showing a year-end fund balance deficit. When the Authority issues its bonds and reimburses the State, the Authority will reimburse this fund by recording an operating transfer. The fund will then reimburse the General Fund and the deficit will be eliminated. Subsequent to year-end, the Authority was in the process of issuing bonds to fund these projects.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
SEPTEMBER 30, 1988
(In Thousands)

	PUBLIC RECREATION BOND FUND	STATE BUILDING AUTHORITY	STATE BUILDING AUTHORITY ADVANCE FINANCING FUND	TOTALS SEPTEMBER 30, 1988	TOTALS SEPTEMBER 30, 1987
ASSETS					
Current Assets:					
Cash and cash equivalents..........	$ –	$ 397	$ –	$ 397	$ –
Equity in Common Cash..............	103	–	–	103	188
Amounts due from other funds.......	–	79	–	79	–
Amounts due from federal agencies.	–	–	–	–	24
Investments........................	–	60,608	–	60,608	18,133
Other current assets...............	–	45	–	45	357
Total Current Assets...............	103	61,131	–	61,234	18,703
Investments..........................	–	–	–	–	1,995
Total Assets.........................	$ 103	$ 61,131	$ -0-	$ 61,234	$ 20,699
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding...............	$ –	$ –	$ –	$ –	$ 6
Accounts payable and other liabilities.......................	–	13,869	7,720	21,589	2,127
Amounts due to other funds.........	–	7,266	54,943	62,210	12,593
Total Current Liabilities..........	–	21,135	62,663	83,799	14,727
Total Liabilities....................	–	21,135	62,663	83,799	14,727
Fund Balances:					
Reserves for:					
Budgetary carry-forwards:					
Multi-year projects............	100	–	–	100	161
Construction and debt service...	–	39,995	–	39,995	–
Total Reserved.....................	100	39,995	–	40,096	161
Unreserved...........................	2	–	(62,663)	(62,660)	5,810
Total Fund Balances..................	103	39,995	(62,663)	(22,564)	5,971
Total Liabilities and Fund Balances..................	$ 103	$ 61,131	$ -0-	$ 61,234	$ 20,699

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	PUBLIC RECREATION BOND FUND	STATE BUILDING AUTHORITY	STATE BUILDING AUTHORITY ADVANCE FINANCING FUND	TOTALS FISCAL YEARS ENDED SEPTEMBER 30, 1988	TOTALS FISCAL YEARS ENDED SEPTEMBER 30, 1987
REVENUES					
From federal agencies	$ 5	$ –	$ –	$ 5	$ 5
Miscellaneous	–	1,333	–	1,333	1,838
Total Revenues	5	1,333	–	1,339	1,844
EXPENDITURES					
Current:					
Conservation, recreation, and agriculture	24	–	–	24	–
Capital outlay	65	40,767	49,663	90,496	20,913
Total Expenditures	90	40,767	49,663	90,520	20,913
Excess of Revenues over (under) Expenditures	(84)	(39,433)	(49,663)	(89,181)	(19,068)
OTHER FINANCING SOURCES (USES)					
Proceeds from bond issues	–	82,402	–	82,402	99,955
Operating transfers out	–	(8,757)	(13,000)	(21,757)	(112,690)
Total Other Financing Sources (Uses)	–	73,645	(13,000)	60,645	(12,735)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(84)	34,211	(62,663)	(28,536)	(31,804)
Fund Balances – Beginning of fiscal year	187	5,783	-0-	5,971	37,775
Fund Balances – End of fiscal year	$ 103	$ 39,995	$ (62,663)	$ (22,564)	$ 5,971

STATE OF MICHIGAN
COMBINING BALANCE SHEET
ENTERPRISE FUNDS
BY CLASSIFICATION
SEPTEMBER 30, 1988
(In Thousands)

	STATE FUNDS	COMPONENT UNITS	TOTALS	
			SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
ASSETS				
Current Assets:				
Cash and cash equivalents....................	$ 6,320	$ 4,036	$ 10,357	$ 13,034
Equity in Common Cash.........................	84,500	-	84,500	71,794
Amounts due from other funds.................	1,345	100	1,446	1,286
Amounts due from federal agencies............	-	8,291	8,291	6,447
Inventories..................................	53,329	149	53,478	53,461
Investments..................................	41,684	601,642	643,327	466,772
Other current assets.........................	18,781	109,038	127,820	121,424
Total Current Assets.........................	205,962	723,259	929,222	734,222
Mortgages and loans receivable...............	-	2,906,752	2,906,752	2,864,146
Investments..................................	335,481	1,343,644	1,679,126	1,775,354
Property, plant, and equipment...............	27,191	3,020	30,212	34,966
Other noncurrent assets......................	-	7,625	7,625	4,338
Total Assets.................................	$ 568,635	$ 4,984,303	$ 5,552,939	$ 5,413,027
LIABILITIES AND FUND EQUITY				
Current Liabilities:				
Liability to Common Cash.....................	$ 3,557	$ -	$ 3,557	$ 2,400
Warrants outstanding.........................	1,422	-	1,422	5,943
Accounts payable and other liabilities.......	101,607	39,565	141,173	115,062
Amounts due to other funds...................	125	1,904	2,029	772
Bonds and notes payable......................	-	124,653	124,653	148,337
Interest payable.............................	-	109,718	109,718	111,572
Deferred revenue.............................	5,167	19,598	24,765	18,962
Escrow funds.................................	-	158,438	158,438	137,184
Total Current Liabilities....................	111,880	453,878	565,759	540,235
Long-Term Liabilities:				
Prize awards payable.........................	389,324	-	389,324	284,353
Deferred revenue.............................	518	-	518	480
Bonds and notes payable......................	-	4,266,820	4,266,820	4,276,976
Unamortized premium (discount)...............	-	(62,972)	(62,972)	(68,444)
Other long-term liabilities..................	8,757	2,757	11,515	8,238
Total Liabilities............................	510,481	4,660,484	5,170,966	5,041,840
Fund Equity:				
Contributed Capital:				
From other funds.............................	2,370	1,500	3,870	3,014
From other governmental units................	-	16	16	16
Total Contributed Capital....................	2,370	1,516	3,886	3,030
Retained Earnings:				
Reserved.....................................	-	240,962	240,962	216,029
Unreserved...................................	55,783	81,340	137,123	152,127
Total Retained Earnings......................	55,783	322,302	378,086	368,156
Total Fund Equity............................	58,154	323,818	381,972	371,187
Total Liabilities and Fund Equity............	$ 568,635	$ 4,984,303	$ 5,552,939	$ 5,413,027

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
BY CLASSIFICATION
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

			TOTALS	
			FISCAL YEARS ENDED	
	STATE FUNDS	COMPONENT UNITS	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
OPERATING REVENUES:				
Operating revenues	$ 1,634,679	$ 19,751	$ 1,654,431	$ 1,474,798
Interest income	3,631	272,659	276,291	277,356
Investment revenue (net)	28,521	144,577	173,098	157,827
Miscellaneous	–	41,985	41,985	35,606
Total Operating Revenues	1,666,833	478,973	2,145,806	1,945,589
OPERATING EXPENSES:				
Salaries, wages, and other administrative	173,257	29,369	202,627	179,974
Interest expense	–	379,938	379,938	374,184
Depreciation	6,578	164	6,743	5,981
Purchases for resale	325,898	150	326,048	336,121
Lottery prize awards	587,091	–	587,091	494,563
Other operating expenses	27,887	55,132	83,019	74,880
Total Operating Expenses	1,120,713	464,756	1,585,470	1,465,706
Operating Income (Loss)	546,119	14,217	560,336	479,883
NONOPERATING REVENUES (EXPENSES):				
Interest revenue (expense)	(538)	76	(461)	(175)
Specific tax on spirits	7,180	–	7,180	7,405
Gain (loss) on disposal of assets	(2)	–	(2)	(45)
Federal grant revenue	–	25,409	25,409	22,540
Grant expense	–	(36,884)	(36,884)	(28,796)
Gain (loss) on debt refunding	–	–	–	(76)
Development stage expenses	(1,208)	–	(1,208)	–
Other nonoperating revenues (expenses)	(1,135)	(15,720)	(16,855)	114
Total Nonoperating Revenues (Expenses)	4,294	(27,118)	(22,824)	965
Income (Loss) Before Operating Transfers	550,414	(12,901)	537,512	480,848
OPERATING TRANSFERS:				
Operating transfers in	771	25,497	26,268	21,648
Operating transfers out	(553,851)	–	(553,851)	(476,237)
Total Operating Transfers In (Out)	(553,080)	25,497	(527,582)	(454,588)
Net Income (Loss)	(2,666)	12,595	9,929	26,259
Retained Earnings – Beginning of fiscal year – as previously reported	59,964	311,223	371,187	343,413
Effect of accounting change	(1,514)	(1,516)	(3,030)	(1,516)
Retained Earnings – Beginning of fiscal year – restated	58,449	309,706	368,156	341,897
Retained Earnings – End of fiscal year	$ 55,783	$ 322,302	$ 378,086	$ 368,156

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUNDS
BY CLASSIFICATION
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

			TOTALS	
			FISCAL YEARS ENDED	
	STATE FUNDS	COMPONENT UNITS	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
SOURCES OF FUNDS:				
From operations:				
Net income (loss)	$ (2,666)	$ 12,595	$ 9,929	$ 26,259
Items not requiring (providing) working capital:				
Depreciation	6,578	164	6,743	5,981
Compensated absences - long-term portion	(226)	52	(174)	610
Change in long-term prize awards	110,291	-	110,291	88,193
Provision for losses on loans	-	5,628	5,628	8,574
Amortization of deferred items (net)	(604)	18,188	17,583	18,486
Loss (gain) on disposal of fixed assets	2	-	2	45
Working Capital Provided (Used) from Operations	113,375	36,629	150,005	148,150
From other sources:				
Proceeds from bonds and notes sold	-	161,317	161,317	382,271
Principal repayments on loans	-	151,528	151,528	208,124
Increase in long-term deferred revenues	114	-	114	191
Sale of fixed assets	-	-	-	1
Decrease in noncurrent investments (net)	42,184	209,791	251,976	29,524
Increase in long-term lease obligations	(182)	-	(182)	182
Increase in other long-term liabilities	3,080	610	3,690	488
Contributed capital additions	855	-	855	1,514
Total Sources (Uses) of Funds	$ 159,427	$ 559,877	$ 719,304	$ 770,450
APPLICATION OF FUNDS:				
Increase in noncurrent investments (net)	$ 104,462	$ 24,302	$ 128,764	$ 389,650
New loans issued	-	196,597	196,597	205,428
Decrease in long-term bonds and notes payable	-	186,899	186,899	254,199
Decrease in long-term prize awards payable	31,699	-	31,699	23,978
Increase in other noncurrent assets	-	3,743	3,743	725
Additions to fixed assets	1,939	52	1,991	9,640
Decrease in long-term deferred revenues	76	-	76	78
Reduction in long-term lease obligations	24	-	24	373
Decrease in other long-term liabilities	-	31	31	3,831
Net increase (decrease) in working capital	21,225	148,250	169,476	(117,456)
Total Application of Funds	$ 159,427	$ 559,877	$ 719,304	$ 770,450
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:				
Cash and cash equivalents	$ 133	$ (2,810)	$ (2,676)	$ 1,194
Equity in/Liability to Common Cash	11,548	-	11,548	15,924
Amounts due from other funds	646	(487)	159	(406)
Amounts due from federal agencies	-	1,843	1,843	3,556
Inventories	14	2	16	(8,771)
Investments	14,282	162,272	176,554	(72,253)
Other current assets	10,288	(3,892)	6,395	(5,522)
Warrants outstanding	4,521	-	4,521	597
Accounts payable and other liabilities	(18,299)	(7,811)	(26,111)	(17,616)
Amounts due to other funds	44	(1,300)	(1,256)	22
Bonds and notes payable - current	-	23,683	23,683	(20,729)
Interest payable	-	1,854	1,854	(4,945)
Deferred revenue	(1,953)	(3,850)	(5,803)	11,235
Escrow funds	-	(21,254)	(21,254)	(19,742)
Net Increase (Decrease) in Working Capital	$ 21,225	$ 148,250	$ 169,476	$ (117,456)

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN

DESCRIPTIONS OF ENTERPRISE FUNDS

STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

LIQUOR PURCHASE REVOLVING FUND

The Liquor Purchase Revolving Fund was authorized by P.A. 259 of 1941. The Department of Commerce, Liquor Control Commission is primarily responsible for the fund. Under State monopoly, liquor is sold at retail or wholesale at State liquor stores and through specially designated distributors. The fund accounts for the sales of and the replenishing and transportation of the liquor stock of the various State liquor stores. Administrative, warehousing, and merchandising costs are appropriated in the fund. At the end of each fiscal year, the "net income" of the fund is transferred to the General Fund in accordance with P.A. 431 of 1984.

STATE LOTTERY FUND

Public Act 239 of 1972 established the State Lottery Fund and created a Bureau of State Lottery under authority of Section 4 of Article V of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Management and Budget. Public Act 239 of 1972 requires that, as nearly as practicable, 45% of gross ticket sales be allocated for prize awards. Net income of the fund related to lottery operations is transferred to the School Aid Fund and net income related to bingo and charity games regulation is transferred to the General Fund.

Revenues and related expenses are recognized in the period during which the related drawings are held. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

LOW-LEVEL RADIOACTIVE WASTE AUTHORITY

The Low-Level Radioactive Waste Authority was established by P.A. 204 of 1987 to provide a regional low-level radioactive waste disposal facility, located in Michigan, to serve the needs of seven midwestern states. Currently in developmental stage, the program is being financed by a loan from the seven-state compact, as well as grants from the State. The loan is to be repaid from operating revenues at such time as the facility becomes operational.

The Authority is a legally autonomous agency within the Department of Management and Budget. It is statutorially authorized to issue revenue bonds payable solely from the operation of a facility; however, at this point there are no definite plans to do so.

The Authority has issued its own separately audited financial statements following the accounting principles which apply to development state enterprises. The retained earnings deficit reflects losses sustained in the development stage, with recovery of these to occur from future operating revenues.

MICHIGAN STATE FAIR REVOLVING FUND

This fund was created by P.A. 224 of 1962, which placed the fund under management of the Michigan State Fair Authority. Public Act 361 of 1978 abolished the Authority and transferred responsibility for the fair and the fund's management to the Department of Natural Resources, which has jurisdiction over the Michigan State Fair grounds in Detroit.

Fund revenues are derived from the operation of the annual State Fair and other exhibits or events, leases, rentals or other charges for use of the buildings and grounds scheduled during the year. Administrative costs are appropriated in the fund. The net income of the fund is transferred to the General Fund as required by P.A. 431 of 1984.

DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND

Public Act 107 of 1979 provided for creation of a fund to account for the revenues and costs incurred in the publication of the department's magazine, publications, and related materials. Direct administrative costs are appropriated and recorded in the fund. Operating transfers out are made to the General Fund to reimburse overhead costs which the General Fund incurs on behalf of this fund.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
ENTERPRISE FUNDS
STATE FUNDS
SEPTEMBER 30, 1988
(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	LOW-LEVEL RADIOACTIVE WASTE AUTHORITY
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 2,305	$ 4,000	$ -
Equity in Common Cash	16,449	66,086	1,964
Amounts due from other funds	300	1,022	23
Inventories	52,700	139	-
Investments	-	41,684	-
Other current assets	285	18,204	-
Total Current Assets	72,042	131,135	1,988
Investments	-	335,481	-
Property, plant, and equipment:			
Land	-	-	-
Buildings and equipment	14,636	18,897	59
Allowance for depreciation	(7,857)	(16,141)	(8)
Construction in progress	-	-	-
Total property, plant, and equipment	6,779	2,755	50
Total Assets	$ 78,821	$ 469,373	$ 2,039
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Liability to Common Cash	$ -	$ -	$ -
Warrants outstanding	464	610	-
Accounts payable and other liabilities	32,723	68,253	35
Amounts due to other funds	26	6	-
Deferred revenue	26	4,360	-
Total Current Liabilities	33,240	73,230	35
Long-Term Liabilities:			
Prize awards payable	-	389,324	-
Deferred revenue	-	-	-
Other long-term liabilities	4,405	1,002	3,136
Total Liabilities	37,645	463,557	3,171
Fund Equity:			
Contributed capital - from other funds	-	-	-
Retained earnings - unreserved	41,175	5,815	(1,132)
Total Fund Equity	41,175	5,815	(1,132)
Total Liabilities and Fund Equity	$ 78,821	$ 469,373	$ 2,039

MICHIGAN STATE FAIR REVOLVING FUND	DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND	TOTALS	
		SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ 14	$ -	$ 6,320	$ 6,187
-	-	84,500	71,794
-	-	1,345	699
-	489	53,329	53,314
-	-	41,684	27,402
135	156	18,781	8,493
149	645	205,962	167,891
-	-	335,481	246,220
7,895	-	7,895	7,263
18,671	125	52,389	51,197
(8,978)	(125)	(33,111)	(26,639)
17	-	17	12
17,606	-	27,191	31,833
$ 17,756	$ 645	$ 568,635	$ 445,945
$ 3,372	$ 185	$ 3,557	$ 2,400
328	19	1,422	5,943
552	42	101,607	83,308
89	2	125	169
88	691	5,167	3,213
4,432	941	111,880	95,035
-	-	389,324	284,353
114	403	518	480
126	87	8,757	6,111
4,673	1,432	510,481	385,981
2,370	-	2,370	1,514
10,711	(787)	55,783	58,449
13,082	(787)	58,154	59,964
$ 17,756	$ 645	$ 568,635	$ 445,945

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
STATE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	LOW-LEVEL RADIOACTIVE WASTE AUTHORITY
OPERATING REVENUES:			
Operating revenues	$ 413,275	$ 1,216,239	$ -
Interest income	-	3,631	-
Investment revenue (net)	-	28,521	-
Total Operating Revenues	413,275	1,248,392	-
OPERATING EXPENSES:			
Salaries, wages, and other administrative	28,298	139,309	-
Interest expense	-	-	-
Depreciation	963	4,987	8
Purchases for resale	325,166	-	-
Lottery prize awards	-	587,091	-
Other operating expenses:			
Amortization of prize award obligation discount	-	27,887	-
Total other operating expenses	-	27,887	-
Total Operating Expenses	354,427	759,276	8
Operating Income (Loss)	58,848	489,116	(8)
NONOPERATING REVENUES (EXPENSES):			
Interest revenue (expense)	(262)	-	-
Specific tax on spirits	7,180	-	-
Gain (loss) on disposal of assets	(2)	-	-
Development stage expenses	-	-	(1,208)
Other nonoperating revenues (expenses)	(1,135)	-	-
Total Nonoperating Revenues (Expenses)	5,778	-	(1,208)
Income (Loss) Before Operating Transfers	64,626	489,116	(1,217)
OPERATING TRANSFERS:			
Operating transfers in	4	1	129
Operating transfers out:			
To School Aid Fund	-	(488,436)	-
To other funds	(64,631)	(681)	(44)
Total operating transfers out	(64,631)	(489,118)	(44)
Total Operating Transfers In (Out)	(64,626)	(489,116)	84
Net Income (Loss)	-0-	-0-	(1,132)
Retained Earnings - Beginning of fiscal year - as previously reported	41,175	5,815	-0-
Effect of accounting change	-	-	-
Retained Earnings - Beginning of fiscal year - restated	41,175	5,815	-0-
Retained Earnings - End of fiscal year	$ 41,175	$ 5,815	$ (1,132)

		TOTALS	
		FISCAL YEARS ENDED	
MICHIGAN STATE FAIR REVOLVING FUND	DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ 3,423	$ 1,741	$ 1,634,679	$ 1,451,903
-	-	3,631	2,554
-	-	28,521	20,548
3,423	1,741	1,666,833	1,475,005
4,565	1,084	173,257	151,745
-	-	-	276
619	-	6,578	5,817
-	732	325,898	335,982
-	-	587,091	494,563
-	-	27,887	19,922
-	-	27,887	19,922
5,184	1,817	1,120,713	1,008,307
(1,760)	(75)	546,119	466,698
(263)	(12)	(538)	(202)
-	-	7,180	7,405
-	-	(2)	(45)
-	-	(1,208)	-
-	-	(1,135)	-
(263)	(12)	4,294	7,156
(2,023)	(87)	550,414	473,855
635	-	771	943
-	-	(488,436)	(407,055)
(42)	(15)	(65,415)	(69,182)
(42)	(15)	(553,851)	(476,237)
592	(15)	(553,080)	(475,294)
(1,430)	(102)	(2,666)	(1,438)
13,657	(684)	59,964	59,888
(1,514)	-	(1,514)	-
12,142	(684)	58,449	59,888
$ 10,711	$ (787)	$ 55,783	$ 58,449

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUNDS
STATE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	LIQUOR PURCHASE REVOLVING FUND	STATE LOTTERY FUND	LOW-LEVEL RADIOACTIVE WASTE AUTHORITY
SOURCES OF FUNDS:			
From operations:			
Net income (loss).......................	$ -0-	$ -0-	$ (1,132)
Items not requiring (providing) working capital:			
Depreciation.......................	963	4,987	8
Compensated absences - long-term portion..........................	(123)	(146)	56
Change in long-term prize awards....	-	110,291	-
Amortization of deferred items (net)	-	(604)	-
Loss (gain) on disposal of fixed assets.........................	2	-	-
Working Capital Provided (Used) from Operations......................	842	114,528	(1,067)
From other sources:			
Increase in long-term deferred revenues.	-	-	-
Sale of fixed assets...................	-	-	-
Decrease in noncurrent investments (net)	-	42,184	-
Increase in long-term lease obligations.	-	(182)	-
Increase in other long-term liabilities.	-	-	3,080
Contributed capital additions...........	-	-	-
Total Sources (Uses) of Funds..........	$ 842	$ 156,529	$ 2,012
APPLICATION OF FUNDS:			
Increase in noncurrent investments (net)..	$ -	$ 104,462	$ -
Decrease in long-term prize awards payable	-	31,699	-
Additions to fixed assets................	372	575	59
Decrease in long-term deferred revenues...	-	-	-
Reduction in long-term lease obligations..	24	-	-
Net increase (decrease) in working capital	445	19,792	1,953
Total Application of Funds.............	$ 842	$ 156,529	$ 2,012
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash and cash equivalents.................	$ 120	$ -	$ -
Equity in/Liability to Common Cash........	(2,209)	12,950	1,964
Amounts due from other funds.............	300	323	23
Inventories..............................	60	(56)	-
Investments..............................	-	14,282	-
Other current assets.....................	(92)	10,405	-
Warrants outstanding.....................	4,861	(181)	-
Accounts payable and other liabilities....	(2,645)	(16,011)	(35)
Amounts due to other funds...............	40	19	-
Deferred revenue.........................	9	(1,938)	-
Net Increase (Decrease) in Working Capital.............................	$ 445	$ 19,792	$ 1,953

		TOTALS	
		FISCAL YEARS ENDED	
MICHIGAN STATE FAIR REVOLVING FUND	DEPARTMENT OF NATURAL RESOURCES MAGAZINE FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ (1,430)	$ (102)	$ (2,666)	$ (1,438)
619	–	6,578	5,817
(17)	4	(226)	518
–	–	110,291	88,193
–	–	(604)	1,395
–	–	2	45
(829)	(98)	113,375	94,532
–	114	114	191
–	–	–	1
–	–	42,184	26,472
–	–	(182)	182
–	–	3,080	–
855	–	855	1,514
$ 26	$ 16	$ 159,427	$ 122,895
$ –	$ –	$ 104,462	$ 90,508
–	–	31,699	23,978
932	–	1,939	9,544
76	–	76	78
–	–	24	373
(982)	16	21,225	(1,588)
$ 26	$ 16	$ 159,427	$ 122,895
$ 12	$ –	$ 133	$ (327)
(1,164)	6	11,548	18,564
–	–	646	15
–	9	14	(8,727)
–	–	14,282	9,013
(10)	(14)	10,268	(11,068)
(141)	(16)	4,521	(514)
344	48	(18,299)	(10,294)
(19)	2	44	278
(4)	(20)	(1,953)	1,471
$ (982)	$ 16	$ 21,225	$ (1,588)

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN

DESCRIPTIONS OF ENTERPRISE FUNDS

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

MICHIGAN STATE HOSPITAL FINANCE AUTHORITY

The Authority was organized under P.A. 38 of 1969, as amended, to lend money to nonprofit, nonpublic hospitals for capital improvements or debt refinancing. The Act also empowers the Authority to sell bonds and to enter into loan and other agreements to obtain the necessary funds for such loans. The Authority is comprised of seven members including a chairperson and four public members appointed by the Governor with the advice and consent of the Senate, and two members ex officio (the State Treasurer and the Director of the Department of Public Health). The Authority has a June 30 fiscal year-end.

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

Public Act 222 of 1975, as amended, authorized the establishment of the Michigan Higher Education Student Loan Authority within the Department of Education, for the purpose of making loans to qualified students attending participating institutions of higher education. Under a guarantee agreement entered into with the Michigan Higher Education Assistance Authority, all student loans are guaranteed as to 100% of principal and interest. The Authority may issue revenue-dedicated debt in the principal amounts necessary to provide funds for achieving its purpose. The Authority is governed by the sixteen members of the Michigan Higher Education Assistance Authority who are appointed by the Governor with the consent of the Senate. The Superintendent of Public Instruction, an ex officio member, serves as chairman.

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY

The Michigan Higher Education Assistance Authority (MHEAA) was created by the Legislature through P.A. 77 of 1960 and is governed by a sixteen member board, each member being appointed by the Governor with the advice and consent of the Senate. The Authority is empowered to guarantee 100% of principal and interest on loans to persons attending eligible post-secondary educational institutions in Michigan. The federal government reimburses the Authority for losses on purchased loans at varying percentages depending upon rates of defaults. Revenues consist of recovery of loan losses, federal reimbursement, loan guarantee fees, and investment income. The $14.7 million of nonoperating expense represents a determination by the federal government that the MHEAA has "excess reserves" which should be paid to them under the provisions of the federal Omnibus Budget Reconciliation Act of 1987.

MACKINAC ISLAND STATE PARK COMMISSION

The Mackinac Island State Park Commission was established by P.A. 355 of 1927. It consists of seven members who are appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for the management of the Mackinac Island and Michilimackinac State Parks and has the authority to issue revenue-dedicated bonds. Operating transfers to the Commission are principally from the General Fund for park operations.

STATE OF MICHIGAN

DESCRIPTIONS OF ENTERPRISE FUNDS (Continued)

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

MICHIGAN STRATEGIC FUND

The Michigan Strategic Fund (MSF) was created by P.A. 270 of 1984 to help diversify the economy of the State and provide for economic development, primarily by assisting business enterprises to obtain additional sources of financing. The MSF is governed by a board of nine members, consisting of the Directors of the State Departments of Commerce and Treasury plus seven members appointed by the Governor with the advice and consent of the Senate. Administratively, the MSF is within the Department of Commerce. The MSF succeeded to the rights, properties, obligations and duties of the Michigan Job Development Authority and Michigan Economic Development Authority. Effective October 1, 1985, the fund balances/retained earnings of these authorities were transferred to the MSF.

The MSF is authorized to issue various types of limited obligation debt. The MSF also receives oil and gas related revenues through the Michigan Natural Resources Trust Fund (a special revenue fund).

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

The Michigan State Housing Development Authority was created by P.A. 346 of 1966, as amended, to issue notes and bonds to finance housing for sale or rental to families with low and moderate incomes and to finance home improvements. Members of the Authority are appointed by the Governor. The Authority has a June 30 fiscal year-end.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
ENTERPRISE FUNDS
COMPONENT UNITS
SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,692	$ 781	$ –
Amounts due from other funds	–	5	–
Amounts due from federal agencies	–	826	7,465
Inventories	–	–	–
Investments	276,555	22,871	34,331
Other current assets:			
Mortgages and loans receivable	49,416	–	–
Interest receivable	24,970	1,933	750
Miscellaneous	–	12	770
Total other current assets	74,386	1,945	1,521
Total Current Assets	352,633	26,430	43,317
Mortgages and loans receivable	1,169,770	129,702	820
Investments	921,383	–	14,859
Property, plant, and equipment:			
Land	–	–	–
Buildings and equipment	–	–	–
Allowance for depreciation	–	–	–
Construction in progress	–	–	–
Total property, plant, and equipment	–	–	–
Other noncurrent assets	–	135	–
Total Assets	$ 2,443,786	$ 156,268	$ 58,996
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Accounts payable and other liabilities	$ 13,031	$ 18	$ 19,442
Amounts due to other funds	–	–	360
Bonds and notes payable	49,416	7,425	–
Interest payable	60,214	2,400	–
Deferred revenue	–	–	14,487
Escrow funds	–	–	–
Total Current Liabilities	122,661	9,843	34,290
Long-Term Liabilities:			
Bonds and notes payable	2,357,238	97,070	–
Unamortized premium (discount)	(42,413)	–	–
Other long-term liabilities	–	79	482
Total Liabilities	2,437,486	106,993	34,772
Fund Equity:			
Contributed Capital:			
From other funds	–	–	1,500
From other governmental units	–	–	16
Total Contributed Capital	–	–	1,516
Retained Earnings:			
Reserved	–	45,404	4,297
Unreserved	6,300	3,871	18,409
Total Retained Earnings	6,300	49,275	22,707
Total Fund Equity	6,300	49,275	24,223
Total Liabilities and Fund Equity	$ 2,443,786	$ 156,268	$ 58,996

MACKINAC ISLAND STATE PARK COMMISSION	MICHIGAN STRATEGIC FUND	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	TOTALS	
			SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ 1,167	$ 262	$ 134	$ 4,036	$ 6,846
54	39	–	100	587
–	–	–	8,291	6,447
149	–	–	149	146
951	10,511	256,422	601,642	439,370
–	1,735	–	51,151	55,378
13	645	23,440	51,752	50,956
16	–	5,336	6,135	6,597
29	2,380	28,776	109,038	112,931
2,352	13,194	285,332	723,259	566,330
–	14,386	1,592,073	2,906,752	2,864,146
–	79,617	327,785	1,343,644	1,529,133
225	–	–	225	225
4,361	–	–	4,361	4,342
(1,600)	–	–	(1,600)	(1,435)
33	–	–	33	–
3,020	–	–	3,020	3,133
–	3,942	3,547	7,625	4,338
$ 5,372	$ 111,141	$ 2,208,737	$ 4,984,303	$ 4,967,081
$ 59	$ –	$ 7,014	$ 39,565	$ 31,753
–	360	1,184	1,904	603
32	2,160	65,620	124,653	148,337
3	206	46,895	109,718	111,572
–	–	5,111	19,598	15,748
–	–	158,438	158,438	137,184
95	2,726	284,262	453,878	445,199
426	16,800	1,795,286	4,266,820	4,276,976
–	–	(20,559)	(62,972)	(68,444)
–	1,069	1,126	2,757	2,126
521	20,595	2,060,115	4,660,484	4,655,858
–	–	–	1,500	1,500
–	–	–	16	16
–	–	–	1,516	1,516
219	80,860	110,180	240,962	216,029
4,632	9,685	38,442	81,340	93,677
4,851	90,546	148,622	322,302	309,706
4,851	90,546	148,622	323,818	311,223
$ 5,372	$ 111,141	$ 2,208,737	$ 4,984,303	$ 4,967,081

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
COMPONENT UNITS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY
OPERATING REVENUES:			
Operating revenues	$ –	$ –	$ 17,796
Interest income	113,594	10,484	–
Investment revenue (net)	94,031	1,780	3,321
Miscellaneous:			
Federal revenues	–	2,671	32,009
Financing fees	–	264	–
Other	1,985	–	–
Total miscellaneous	1,985	2,936	32,009
Total Operating Revenues	209,610	15,200	53,127
OPERATING EXPENSES:			
Salaries, wages, and other administrative	1,594	3,000	3,816
Interest expense	206,949	8,807	–
Depreciation	–	–	–
Purchases for resale	–	–	–
Other operating expenses:			
Provision for losses on loans	–	–	32,501
Amortization of deferred issue costs	–	130	–
Miscellaneous	345	155	10,795
Total other operating expenses	345	285	43,297
Total Operating Expenses	208,888	12,094	47,113
Operating Income (Loss)	722	3,106	6,013
NONOPERATING REVENUES (EXPENSES):			
Interest revenue (expense)	–	–	–
Federal grant revenue	–	–	–
Grant expense	–	–	–
Gain (loss) on debt refunding	–	–	–
Other nonoperating revenues (expenses)	(1,113)	–	(14,702)
Total Nonoperating Revenues (Expenses)	(1,113)	–	(14,702)
Income (Loss) Before Operating Transfers	(391)	3,106	(8,688)
OPERATING TRANSFERS:			
Operating transfers in	–	–	–
Total Operating Transfers In (Out)	–	–	–
Net Income (Loss)	(391)	3,106	(8,688)
Retained Earnings – Beginning of fiscal year – as previously reported	6,691	46,168	32,912
Effect of accounting change	–	–	(1,516)
Retained Earnings – Beginning of fiscal year – restated	6,691	46,168	31,396
Retained Earnings – End of fiscal year	$ 6,300	$ 49,275	$ 22,707

			TOTALS	
			FISCAL YEARS ENDED	
MACKINAC ISLAND STATE PARK COMMISSION	MICHIGAN STRATEGIC FUND	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987 (RESTATED)*
$ 1,955	$ –	$ –	$ 19,751	$ 22,895
–	861	147,719	272,659	274,801
–	6,759	38,685	144,577	137,279
–	–	2,926	37,607	31,151
–	375	685	1,325	2,397
–	41	1,026	3,052	2,057
–	417	4,637	41,985	35,606
1,955	8,038	191,041	478,973	470,583
3,235	3,483	14,240	29,369	28,229
–	2,473	161,708	379,938	373,908
164	–	–	164	163
150	–	–	150	138
–	3,539	2,089	38,130	34,724
–	–	325	455	732
59	–	5,191	16,546	19,500
59	3,539	7,605	55,132	54,958
3,610	9,497	183,553	464,756	457,399
(1,654)	(1,458)	7,488	14,217	13,184
76	–	–	76	27
–	–	25,409	25,409	22,540
–	(11,475)	(25,409)	(36,884)	(28,796)
–	–	–	–	(76)
95	–	–	(15,720)	114
171	(11,475)	–	(27,118)	(6,191)
(1,483)	(12,933)	7,488	(12,901)	6,992
1,747	23,750	–	25,497	20,705
1,747	23,750	–	25,497	20,705
264	10,816	7,488	12,595	27,697
4,586	79,729	141,134	311,223	283,525
–	–	–	(1,516)	(1,516)
4,586	79,729	141,134	309,706	282,009
$ 4,851	$ 90,546	$ 148,622	$ 322,302	$ 309,706

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*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUNDS
COMPONENT UNITS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN STATE HOSPITAL FINANCE AUTHORITY	MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY	MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY
SOURCES OF FUNDS:			
From operations:			
Net income (loss)	$ (391)	$ 3,106	$ (8,688)
Items not requiring (providing) working capital:			
Depreciation	–	–	–
Compensated absences – long-term portion	–	–	–
Provision for losses on loans	–	–	–
Amortization of deferred items (net)	–	130	–
Working Capital Provided (Used) from Operations	(391)	3,237	(8,688)
From other sources:			
Proceeds from bonds and notes sold	65,248	–	–
Principal repayments on loans	45,474	25,519	4,840
Decrease in noncurrent investments (net)	190,419	9,482	9,890
Increase in other long-term liabilities	–	7	–
Total Sources (Uses) of Funds	$ 300,750	$ 38,246	$ 6,041
APPLICATION OF FUNDS:			
Increase in noncurrent investments (net)	$ –	$ –	$ –
New loans issued	91,551	12,009	4,863
Decrease in long-term bonds and notes payable	59,864	9,029	–
Increase in other noncurrent assets	–	–	–
Additions to fixed assets	–	–	–
Decrease in other long-term liabilities	–	–	31
Net increase (decrease) in working capital	149,335	17,206	1,146
Total Application of Funds	$ 300,750	$ 38,246	$ 6,041
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash and cash equivalents	$ (2,022)	$ (137)	$ (48)
Equity in/Liability to Common Cash	–	–	–
Amounts due from other funds	–	5	(475)
Amounts due from federal agencies	–	142	1,700
Inventories	–	–	–
Investments	141,325	7,583	12,625
Other current assets	(2,537)	(402)	679
Warrants outstanding	–	–	–
Accounts payable and other liabilities	7,921	(7)	(14,235)
Amounts due to other funds	–	26	(360)
Bonds and notes payable – current	3,312	9,851	–
Interest payable	1,336	144	–
Deferred revenue	–	–	1,260
Escrow funds	–	–	–
Net Increase (Decrease) in Working Capital	$ 149,335	$ 17,206	$ 1,146

MACKINAC ISLAND STATE PARK COMMISSION	MICHIGAN STRATEGIC FUND	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	TOTALS	
			FISCAL YEARS ENDED	
			SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ 264	$ 10,816	$ 7,488	$ 12,595	$ 27,697
164	–	–	164	163
–	–	52	52	92
–	3,539	2,089	5,628	8,574
–	–	18,058	18,188	17,090
429	14,356	27,687	36,629	53,618
–	–	96,069	161,317	382,271
–	3,547	72,147	151,528	208,124
–	–	–	209,791	3,052
–	602	–	610	488
$ 429	$ 18,506	$ 195,903	$ 559,877	$ 647,554
$ –	$ 20,513	$ 3,789	$ 24,302	$ 299,141
–	7,523	80,649	196,597	205,428
32	2,160	115,813	186,899	254,199
–	3,304	439	3,743	725
52	–	–	52	95
–	–	–	31	3,831
344	(14,994)	(4,787)	148,250	(115,867)
$ 429	$ 18,506	$ 195,903	$ 559,877	$ 647,554
$ (204)	$ 161	$ (559)	$ (2,810)	$ 1,522
–	–	–	–	(2,640)
(57)	39	–	(487)	(421)
–	–	–	1,843	3,556
2	–	–	2	(43)
631	(14,415)	14,522	162,272	(81,267)
(2)	(905)	(723)	(3,892)	5,545
–	–	–	–	1,112
(17)	–	(1,473)	(7,811)	(7,322)
–	(265)	(701)	(1,300)	(255)
(10)	390	10,140	23,683	(20,729)
1	–	372	1,854	(4,945)
–	–	(5,111)	(3,850)	9,764
–	–	(21,254)	(21,254)	(19,742)
$ 344	$ (14,994)	$ (4,787)	$ 148,250	$ (115,867)

STATE OF MICHIGAN

DESCRIPTIONS OF INTERNAL SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

CORRECTIONAL INDUSTRIES REVOLVING FUND

This fund was created by P.A. 210 of 1935 and continued by P.A. 15 of 1968 to account for the financial transactions of a manufacturing and processing industry, employing inmates of the State's correctional institutions. Public Act 245 of 1980 expanded the fund's sales market to include institutions of this or any other state or political subdivision thereof, the federal government or its agencies, and certain tax exempt organizations.

Public Act 205 of 1986 stipulates that the fund repay the General Fund for the cost of building and equipping prison factories included as part of new prison construction. The costs of buildings and equipment are to be repaid over 30 years and 10 years respectively.

FEDERAL SURPLUS REVOLVING FUND

The purpose of the fund is to account for the operations related to and the distribution of surplus federal property to eligible units of State and local agencies for a service charge. The fund was created by administrative decision.

MOTOR TRANSPORT REVOLVING FUND

This fund was established by P.A. 260 of 1947 to provide automotive transportation for State agencies. Activities include purchase, replacement, and maintenance of automotive equipment. Vehicles are available to agencies on a permanently assigned basis or through the motor pool for short term usage. The Motor Transport Division vehicles are furnished to agencies at a rate sufficient to cover all costs of operation and maintenance. Agencies are charged by Motor Transport Division on a monthly basis. The advance from other funds on the balance sheet is payable to the State Sponsored Group Insurance Fund.

OFFICE SERVICES REVOLVING FUND

Created by P.A. 262 of 1952, this fund provides services in the following areas: reproduction, microfilm, mailing, and purchase and storage of paper, stationery, and office supplies. The cost of the services or supplies is charged to user departments and agencies. Resultant revenue is credited to the revolving fund and is used for administration and operation of the program, including purchase of necessary equipment.

TELECOMMUNICATIONS REVOLVING FUND

This fund was created by administrative decision, the purpose of which is to provide telecommunication services to other State funds. Administrative costs are appropriated in the General Fund and financed by interfund transfer. The cost of providing services is charged to the user agencies on a monthly basis.

DESCRIPTIONS OF INTERNAL SERVICE FUNDS (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 1988

STATE SPONSORED GROUP INSURANCE FUND

This fund was administratively established to reflect the financial transactions of the Department of Civil Service's insurance plans which provide state sponsored health, long-term disability, life, vision, and dental coverage for participating employees and retirees. The plans' funding methods range from those where the State is fully self-insured to those where an outside carrier assumes partial risk on a contracted basis.

For those programs where the State purchases full coverage (e.g., health maintenance organizations), premiums are recorded as revenues and expenses. For self-insured (vision, dental, and most health coverage) and partially self-insured (long-term disability and life) benefit programs, the State recognizes revenues, expenses, and liabilities (insurance "reserves") in accordance with accounting principles applicable to insurance accounting in the private sector. This results in the recognition of unearned premiums (deferred revenues), rather than retained earnings, when a program's assets exceed its liabilities. The advance from other funds on the balance sheet represents a receivable from the Motor Transport Revolving Fund.

STATE OF MICHIGAN

COMBINING BALANCE SHEET

INTERNAL SERVICE FUNDS

SEPTEMBER 30, 1988

(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	FEDERAL SURPLUS REVOLVING FUND	MOTOR TRANSPORT REVOLVING FUND
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 3	$ –	$ –
Equity in Common Cash	6,696	–	–
Amounts due from other funds	–	–	–
Amounts due from federal agencies	20	–	1
Amounts due from local units	204	155	–
Inventories	12,121	–	631
Other current assets	94	–	320
Total Current Assets	19,141	155	954
Advances to other funds	–	–	–
Property, plant, and equipment:			
Buildings and equipment	24,845	300	87,062
Allowance for depreciation	(8,504)	(273)	(31,797)
Construction in progress	504	–	–
Total property, plant, and equipment	16,845	27	55,264
Other noncurrent assets	–	–	–
Total Assets	$ 35,987	$ 182	$ 56,219
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Liability to Common Cash	$ –	$ 434	$ 10,717
Warrants outstanding	324	5	353
Accounts payable and other liabilities	1,781	37	1,276
Amounts due to other funds	196	–	1
Deferred revenue	–	–	–
Total Current Liabilities	2,302	477	12,349
Long-Term Liabilities:			
Advances from other funds	5,426	–	17,450
Deferred revenue	–	–	–
Other long-term liabilities	1,039	148	434
Total Liabilities	8,768	626	30,233
Fund Equity:			
Contributed capital - from other funds	1,373	–	8,444
Retained earnings - unreserved	25,844	(443)	17,540
Total Fund Equity	27,218	(443)	25,985
Total Liabilities and Fund Equity	$ 35,987	$ 182	$ 56,219

OFFICE SERVICES REVOLVING FUND	TELE-COMMUNICATIONS REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS SEPTEMBER 30, 1988	TOTALS SEPTEMBER 30, 1987 (RESTATED)*
$ 1,000	$ –	$ –	$ 1,003	$ 1,005
3,989	215	64,109	75,010	122,769
–	–	1,775	1,775	1,817
–	–	–	21	15
57	–	–	417	165
2,424	–	–	15,177	13,677
78	918	13	1,426	2,112
7,549	1,133	65,898	94,833	141,564
–	–	17,450	17,450	–
6,394	16,735	521	135,860	107,341
(3,734)	(3,920)	(299)	(48,530)	(39,465)
–	–	–	504	8,050
2,659	12,815	221	87,835	75,926
–	–	52,405	52,405	46,908
$ 10,209	$ 13,949	$ 135,975	$ 252,524	$ 264,398
$ –	$ –	$ –	$ 11,152	$ 16,946
217	153	200	1,255	1,202
1,302	3,084	52,907	60,390	66,542
4	6	–	210	180
57	115	41,238	41,411	65,601
1,581	3,360	94,347	114,419	150,473
–	–	–	22,876	5,003
–	487	–	487	603
1,063	9,908	23,033	35,628	36,327
2,644	13,756	117,381	173,412	192,408
–	–	–	9,818	9,818
7,564	192	18,594	69,293	62,172
7,564	192	18,594	79,111	71,990
$ 10,209	$ 13,949	$ 135,975	$ 252,524	$ 264,398

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

INTERNAL SERVICE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	FEDERAL SURPLUS REVOLVING FUND	MOTOR TRANSPORT REVOLVING FUND
OPERATING REVENUES..........................	$ 22,380	$ 985	$ 26,503
OPERATING EXPENSES:			
Salaries, wages, and other administrative...	13,109	700	7,348
Interest expense............................	–	–	–
Depreciation................................	1,077	4	12,590
Purchases for resale........................	–	–	4,314
Purchases for prison industries.............	7,969	–	–
Payment of premiums and claims..............	–	–	1,486
Total Operating Expenses................	22,156	705	25,740
Operating Income (Loss)..................	224	279	763
NONOPERATING REVENUES (EXPENSES):			
Gain (loss) on disposal of assets...........	–	(1)	(152)
Other nonoperating revenues (expenses)......	51	–	80
Total Nonoperating Revenues (Expenses)...	51	(1)	(71)
Income (Loss) Before Operating Transfers.	276	278	691
OPERATING TRANSFERS:			
Operating transfers in......................	52	–	–
Operating transfers out.....................	(166)	(56)	(583)
Total Operating Transfers In (Out).......	(113)	(56)	(582)
Net Income (Loss).......................	162	222	109
Retained Earnings – Beginning of fiscal year – as previously reported............	27,055	(666)	25,876
Effect of accounting change.................	(1,373)	–	(8,444)
Retained Earnings – Beginning of fiscal year – restated...........................	25,681	(666)	17,431
Retained Earnings – End of fiscal year......	$ 25,844	$ (443)	$ 17,540

OFFICE SERVICES REVOLVING FUND	TELE-COMMUNICATIONS REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS FISCAL YEARS ENDED SEPTEMBER 30, 1988	 SEPTEMBER 30, 1987 (RESTATED)*
$ 29,397	$ 11,973	$ 300,874	$ 392,115	$ 364,154
9,530	8,249	16,299	55,238	53,128
–	778	–	778	428
599	1,699	39	16,012	14,415
16,836	–	–	21,150	19,156
–	–	–	7,969	6,568
–	–	279,988	281,474	259,495
26,966	10,727	296,327	382,623	353,193
2,431	1,245	4,547	9,491	10,961
(16)	(45)	–	(215)	(623)
9	77	–	218	38
(7)	31		3	(585)
2,424	1,276	4,547	9,494	10,376
1	–	–	55	979
(1,290)	(303)	(29)	(2,429)	(1,866)
(1,289)	(303)	(29)	(2,374)	(887)
1,134	973	4,517	7,120	9,489
6,429	(781)	14,076	71,990	60,829
–	–	–	(9,818)	(8,145)
6,429	(781)	14,076	62,172	52,683
$ 7,564	$ 192	$ 18,594	$ 69,293	$ 62,172

*The prior year column was restated for the effect of a change in accounting for contributed capital.

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
INTERNAL SERVICE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	CORRECTIONAL INDUSTRIES REVOLVING FUND	FEDERAL SURPLUS REVOLVING FUND	MOTOR TRANSPORT REVOLVING FUND
SOURCES OF FUNDS:			
From operations:			
Net income (loss)	$ 162	$ 222	$ 109
Items not requiring (providing) working capital:			
Depreciation	1,077	4	12,590
Compensated absences - long-term portion	261	10	50
Disability claims - long-term portion	-	-	-
Amortization of deferred items	-	-	-
Loss (gain) on disposal of fixed assets	-	1	152
Working Capital Provided (Used) from Operations	1,501	238	12,902
From other sources:			
Increase in long-term deferred revenues	-	-	-
Sale of fixed assets	-	-	3,061
Increase in long-term lease obligations	-	-	-
Increase in advances and other long-term liabilities	422	-	17,450
Contributed capital additions	-	-	-
Total Sources (Uses) of Funds	$ 1,924	$ 239	$ 33,413
APPLICATION OF FUNDS:			
Increase in advances to other funds	$ -	$ -	$ -
Increase in other noncurrent assets (net)	-	-	-
Additions to fixed assets	3,285	-	25,877
Reduction in long-term lease obligations	-	-	-
Net increase (decrease) in working capital	(1,361)	238	7,535
Total Application of Funds	$ 1,924	$ 239	$ 33,413
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash and cash equivalents	$ -	$ (2)	$ -
Equity in/Liability to Common Cash	(3,105)	184	5,609
Amounts due from other funds	-	-	-
Amounts due from federal agencies	5	-	1
Amounts due from local units	132	88	-
Inventories	1,394	-	142
Other current assets	(280)	(48)	225
Warrants outstanding	81	(2)	(30)
Accounts payable and other liabilities	462	18	1,579
Amounts due to other funds	(51)	1	6
Deferred revenue	-	-	-
Net Increase (Decrease) in Working Capital	$ (1,361)	$ 238	$ 7,535

OFFICE SERVICES REVOLVING FUND	TELE-COMMUNICATIONS REVOLVING FUND	STATE SPONSORED GROUP INSURANCE FUND	TOTALS FISCAL YEARS ENDED SEPTEMBER 30, 1988	 SEPTEMBER 30, 1987 (RESTATED)*
$ 1,134	$ 973	$ 4,517	$ 7,120	$ 9,489
599	1,699	39	16,012	14,415
78	2	1	405	311
-	-	535	535	3,566
-	(115)	-	(115)	-
16	45	-	215	623
1,829	2,606	5,095	24,173	28,406
-	-	-	-	360
28	-	-	3,089	2,523
67	-	-	67	11,476
-	-	-	17,872	5,003
-	-	-	-	1,672
$ 1,925	$ 2,606	$ 5,095	$ 45,203	$ 49,442
$ -	$ -	$ 17,450	$ 17,450	$ -
-	-	5,497	5,497	8,224
1,107	727	227	31,226	32,563
-	1,707	-	1,707	-
817	171	(18,079)	(10,677)	8,654
$ 1,925	$ 2,606	$ 5,095	$ 45,203	$ 49,442
$ -	$ -	$ -	$ (2)	$ (8)
684	(421)	(44,917)	(41,964)	2,051
-	-	(42)	(42)	187
-	-	-	6	15
31	-	-	252	(71)
(17)	(19)	-	1,500	2,451
(12)	(316)	(254)	(685)	133
(132)	(56)	86	(53)	(643)
240	984	2,866	6,152	(3,541)
13	-	-	(30)	39
9	-	24,181	24,190	8,038
$ 817	$ 171	$ (18,079)	$ (10,677)	$ 8,654

*The prior year column was restated for the effect of a change in accounting for contributed capital.

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STATE OF MICHIGAN
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS – BY CLASSIFICATION
SEPTEMBER 30, 1988
(In Thousands)

	EXPENDABLE TRUST FUNDS	PENSION TRUST FUNDS	AGENCY FUNDS	TOTALS	
				SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 1,840	$ 5	$ 3,471	$ 5,317	$ 13,761
Equity in Common Cash	330,146	122,066	24,039	476,252	436,753
Taxes, interest, and penalties receivable	144,506	–	–	144,506	153,824
Amounts due from other funds	8,881	4,380	470	13,731	24,477
Amounts due from federal agencies	14,383	–	383	14,766	17,087
Amounts due from local units	18,866	41,309	–	60,176	47,635
Investments	1,315,480	2,045,374	–	3,360,855	3,643,837
Other current assets	47,796	157,372	499	205,669	302,391
Total Current Assets	1,881,903	2,370,509	28,863	4,281,276	4,639,769
Taxes, interest, and penalties receivable	–	–	–	–	2,380
Amounts due from local units	1,010	–	–	1,010	784
Investments	1,325,305	12,714,404	693,279	14,732,989	13,292,017
Other noncurrent assets	5,404	–	284,656	290,060	266,763
Total Assets	$ 3,213,623	$15,084,913	$ 1,006,799	$19,305,336	$18,201,715
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Liability to Common Cash	$ –	$ –	$ 2,726	$ 2,726	$ –
Warrants outstanding	3,699	14,486	314	18,499	19,111
Accounts payable and other liabilities	240,569	25,846	3,962	270,379	645,749
Amounts due to other funds	5,718	–	80	5,798	7,848
Deferred revenue	11,241	–	–	11,241	21,354
Total Current Liabilities	261,229	40,332	7,083	308,645	694,063
Long-Term Liabilities:					
Advances from other funds	2,216	–	–	2,216	2,015
Advances from federal agencies	781,539	–	–	781,539	952,609
Deferred revenue	–	–	–	–	2,380
Other long-term liabilities	11,626	–	999,715	1,011,342	855,419
Total Liabilities	1,056,610	40,332	1,006,799	2,103,742	2,506,488
Fund Balances:					
Reserved	–	15,044,580	–	15,044,580	13,764,640
Unreserved	2,157,012	–	–	2,157,012	1,930,586
Total Fund Balances	2,157,012	15,044,580	-0-	17,201,593	15,695,227
Total Liabilities and Fund Balances	$ 3,213,623	$15,084,913	$ 1,006,799	$19,305,336	$18,201,715

STATE OF MICHIGAN

DESCRIPTIONS OF EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

MICHIGAN UNEMPLOYMENT COMPENSATION FUND

The Michigan Unemployment Compensation Fund is administered by the Michigan Employment Security Commission as authorized by P.A. 1 of 1936 (Extra Session). The fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. It also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, which is a special revenue fund.

MICHIGAN EMPLOYMENT SECURITY ACT CONTINGENT FUND

The Michigan Employment Security Act Contingent Fund, which is administered by the Michigan Employment Security Commission (MESC), was created by P.A. 535 of 1982 to receive a special unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. Solvency taxes are restricted to two purposes, payment of interest on the Michigan Unemployment Compensation Fund borrowings from the federal government and, funding of the costs of a major automation project to the extent that such costs are not funded by other MESC revenue sources. Interest and penalty revenues are spent at the discretion of the commission. The recording of the deferred interest payments and deferred taxes receivable is explained in the notes to the General Purpose Financial Statements. Expenditures in the fund reflect payment of deferred interest.

MICHIGAN STATE ACCIDENT FUND

As explained in the "Basis of Accounting - Reporting Entity" note to the financial statements, the operations of the Michigan State Accident Fund (MSAF) are not reported in these statements, pending the outcome of litigation between the MSAF and the State which currently prevents the State from exercising oversight responsibility. The amounts included in the State trust fund represent only that portion of the assets which are invested by the State Treasurer on behalf of MSAF. Revenues of the trust fund include reimbursements for State employees workers' compensation payments and administrative costs, deposits by the MSAF to the fund, and investment earnings. Withdrawals from the fund by the MSAF are recorded as expenditures. Operating transfers out reflect trust fund administrative costs, which are recorded as expenditures in the General Fund.

SECOND INJURY FUND

Public Act 317 of 1969, as amended, created the Second Injury Fund to insure carriers and self-insured employers against certain workers' compensation losses. The fund is supervised by the administrator who is appointed by the fund's Board of Trustees. The fund's revenue consists of assessments, calculated under provisions of the act, which are assessed to insurance carriers and self-insured employers. Administrative costs are appropriated in the General Fund with financing provided by way of operating transfers.

MUNICIPAL EMPLOYEES' RETIREMENT FUND

The fund and its governing board were authorized by P.A. 135 of 1945 as amended. Revenues are provided to the fund from participating municipalities' and employees' contributions and investment income. Expenditures are recorded for benefit payments, contribution refunds, and direct administrative charges. Additional administrative costs incurred in the General Fund are financed by operating transfers from this fund. The State of Michigan's responsibility is that of due care required of an administrator. It has no legal or moral obligation to provide funding requirements, as that is the responsibility of the participating municipalities.

STATE EMPLOYEES' DEFERRED COMPENSATION FUND II (401K)

The State Employees' Deferred Compensation Fund II (401k) was administratively established to account for a deferred compensation plan which permits State employees to defer a portion of their income until future years. A footnote to the General Purpose Financial Statements, titled "Deferred Compensation Plans," includes additional information on the plan.

MICHIGAN EDUCATION TRUST

The Michigan Education Trust (MET) operates a tuition guarantee program. A purchaser enters into a contract with MET which provides that in return for a specified actuarially determined payment, MET will guarantee a Michigan child's undergraduate tuition at any Michigan public college or university. The amount which the purchaser is required to pay is based on several factors. Among these are today's tuition costs, the child's age and grade in school, anticipated investment earnings, and tuition rate increases.

The creation of MET as an entity within the Michigan Department of Treasury was authorized by P.A. 316 of 1986. Although MET is administratively located within the Michigan Department of Treasury, the act provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the act. The act and contracts also specifically provide that the State is not liable if the MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

The MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate.

TRANSPORTATION RELATED TRUST FUNDS

The transportation related trust funds column reflects the activities of four funds: the Special Federal Bridge Replacement Fund, the Federal County Road Fund, the Federal Urban Transportation System Fund, and the Highway Topics and Safety Program Fund. The Michigan Department of Transportation is recognized as the legal representative of the State including all governmental subdivisions in the administration of these programs. The financing accounted for in these funds consists primarily of local and federal matching funds with very little State funds. Financing provided prior to expenditures being incurred is recorded as deferred revenue and revenue is recognized as expenditures are made. As a result of this, the fund balances of these funds are usually zero.

The Special Federal Bridge Replacement Fund was established in conjunction with the Federal Highway Act of 1970, Section 144. This section was authorized by Congress to assist states in reconstructing or replacing roadway bridges which are found to be unsafe or obsolete.

The Federal County Road Fund was established in conjunction with the Federal Aid Highway Act of 1944. This act authorizes funds for projects on the secondary road system which are selected by the Michigan Department of Transportation in cooperation with county road commissions and the Bureau of Public Roads.

The Federal Urban Transportation System Fund was created to administer provisions of the Federal Highway Act of 1970, Section 106. The responsibility for administration of the act was placed in the Michigan Department of Transportation by Section 302(a) of Title 23, United States Code, and was authorized by section 7(m) of P.A. 286 of 1964. The principal objective of the fund is directed to improvement of urban highway systems in cooperation with local units of government.

The Highway Topics and Safety Program Fund was established in conjunction with the Federal Aid Highway Acts of 1968 and 1973. The objective of this program is to improve the safety and operating conditions of the existing street and road systems in urban areas.

MISCELLANEOUS TRUST ACCOUNTS FUND

This fund is used to report the transactions of several legally separated activities in which the State holds funds in a fiduciary manner. These activities include the following "funds": State Office Buildings Bond Redemption; Children's Institute Trust; Escheats; Gifts, Bequests, and Deposits Investment; Silicosis, Dust Disease, and Logging Industry Compensation; Agricultural College Fund - Morrill Act; Hospital Patients' Trust; Federal Housing Administration Mortgages Escrow; Self-Insurers' Security; Special Assessment Deferment; Urban Land Assembly Loan; Utility Consumer Representation; Bankrupt Self Insured Corporations Workers' Disability Funds #1 and #2; and Fred Sanders Inc. Workers' Compensation Trust.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS
SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN UNEMPLOYMENT COMPENSATION FUND	MICHIGAN EMPLOYMENT SECURITY ACT CONTINGENT FUND	MICHIGAN STATE ACCIDENT FUND	SECOND INJURY FUND
ASSETS				
Current Assets:				
Cash and cash equivalents	$ –	$ –	$ –	$ 8
Equity in Common Cash	–	34,956	77,835	16,422
Taxes, interest, and penalties receivable	142,060	2,445	–	–
Amounts due from other funds	1,277	2,016	1,496	384
Amounts due from federal agencies	–	–	–	–
Amounts due from local units	13,940	–	–	–
Investments	1,154,884	–	–	–
Other current assets	14,166	–	10,222	206
Total Current Assets	1,326,329	39,418	89,554	17,021
Taxes, interest, and penalties receivable	–	–	–	–
Amounts due from local units	–	–	–	–
Investments	–	–	344,379	–
Other noncurrent assets	–	–	–	–
Total Assets	$ 1,326,329	$ 39,418	$ 433,934	$ 17,021
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Warrants outstanding	$ –	$ –	$ –	$ 728
Accounts payable and other liabilities	208,290	–	313	2,901
Amounts due to other funds	1,118	–	–	11
Deferred revenue	1,252	2,445	–	–
Total Current Liabilities	210,660	2,445	313	3,642
Long-Term Liabilities:				
Advances from other funds	–	–	–	–
Advances from federal agencies	781,539	–	–	–
Deferred revenue	–	–	–	–
Other long-term liabilities	–	–	–	–
Total Liabilities	992,200	2,445	313	3,642
Fund Balances:				
Unreserved	334,129	36,972	433,621	13,379
Total Fund Balances	334,129	36,972	433,621	13,379
Total Liabilities and Fund Balances	$ 1,326,329	$ 39,418	$ 433,934	$ 17,021

					TOTALS	
MUNICIPAL EMPLOYEES' RETIREMENT FUND	STATE EMPLOYEES' DEFERRED COMPENSATION FUND II(401K)	MICHIGAN EDUCATION TRUST	TRANSPORTATION RELATED TRUST FUNDS	MISCELLANEOUS TRUST ACCOUNTS FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ 5	$ –	$ 70	$ –	$ 1,756	$ 1,840	$ 10,825
66,810	4,971	–	8,709	120,440	330,146	335,391
–	–	–	–	–	144,506	153,824
1,125	64	–	165	2,351	8,881	12,835
–	41	–	14,342	–	14,383	16,597
2,072	–	–	2,494	358	18,866	16,810
135,838	–	10,486	–	14,271	1,315,480	1,311,110
17,764	152	849	26	4,408	47,796	54,905
223,616	5,229	11,406	25,739	143,587	1,881,903	1,912,300
–	–	–	–	–	–	2,380
–	–	–	–	1,010	1,010	784
948,404	31,841	–	–	680	1,325,305	1,238,074
–	611	1,259	–	3,532	5,404	1,878
$ 1,172,021	$ 37,682	$ 12,666	$ 25,739	$ 148,810	$ 3,213,623	$ 3,155,418
$ 253	$ 65	$ –	$ 2,258	$ 393	$ 3,699	$ 2,356
6,646	4	4	13,475	8,932	240,569	236,426
–	–	1,000	2,460	1,127	5,718	7,688
–	–	–	7,543	–	11,241	21,354
6,899	70	1,004	25,739	10,453	261,229	267,825
–	–	–	–	2,216	2,216	2,015
–	–	–	–	–	781,539	952,609
–	–	–	–	–	–	2,380
–	–	11,626	–	–	11,626	–
6,899	70	12,631	25,739	12,669	1,056,610	1,224,831
1,165,122	37,611	35	–	136,141	2,157,012	1,930,586
1,165,122	37,611	35	-0-	136,141	2,157,012	1,930,586
$ 1,172,021	$ 37,682	$ 12,666	$ 25,739	$ 148,810	$ 3,213,623	$ 3,155,418

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	MICHIGAN UNEMPLOYMENT COMPENSATION FUND	MICHIGAN EMPLOYMENT SECURITY ACT CONTINGENT FUND	MICHIGAN STATE ACCIDENT FUND	SECOND INJURY FUND
REVENUES				
Taxes	$ 1,051,471	$ 10,334	$ –	$ –
From federal agencies	59,149	–	–	–
From local agencies	–	–	–	–
Miscellaneous	52,801	9,706	60,609	15,874
Total Revenues	1,163,421	20,041	60,609	15,874
EXPENDITURES				
Current:				
General government	–	–	–	–
Education	–	–	–	–
Health and welfare	–	–	–	–
Conservation, recreation, and agriculture	–	–	–	–
Labor, commerce, and regulatory	1,069,549	12,799	7,332	15,590
Mental health	–	–	–	–
Transportation	–	–	–	–
Total Expenditures	1,069,549	12,799	7,332	15,590
Excess of Revenues over (under) Expenditures	93,872	7,241	53,276	283
OTHER FINANCING SOURCES (USES)				
Operating transfers in	–	280	–	–
Operating transfers out	–	(15)	(59)	(2,469)
Total Other Financing Sources (Uses)	–	265	(59)	(2,469)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	93,872	7,506	53,216	(2,185)
Fund Balances – Beginning of fiscal year – as previously reported	240,257	29,465	380,404	15,564
Effect of accounting changes	–	–	–	–
Fund Balances – Beginning of fiscal year – restated	240,257	29,465	380,404	15,564
Fund Balances – End of fiscal year	$ 334,129	$ 36,972	$ 433,621	$ 13,379

					TOTALS	
					FISCAL YEARS ENDED	
MUNICIPAL EMPLOYEES' RETIREMENT FUND	STATE EMPLOYEES' DEFERRED COMPENSATION FUND II (401K)	MICHIGAN EDUCATION TRUST	TRANSPORTATION RELATED TRUST FUNDS	MISCELLANEOUS TRUST ACCOUNTS FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ –	$ –	$ –	$ –	$ –	$ 1,061,806	$ 1,174,724
–	–	–	75,585	–	134,734	100,387
–	–	–	18,331	–	18,331	15,107
116,655	23,657	39	585	89,175	369,104	387,361
116,655	23,657	39	94,502	89,175	1,583,977	1,677,582
44,068	2,481	–	–	41,989	88,540	85,355
–	–	4	–	7	12	8
–	–	–	–	627	627	52
–	–	–	–	124	124	–
–	–	–	–	9,160	1,114,432	1,001,776
–	–	–	–	6,022	6,022	5,701
–	–	–	98,013	–	98,013	92,827
44,068	2,481	4	98,013	57,932	1,307,773	1,185,721
72,586	21,175	35	(3,511)	31,243	276,203	491,860
–	–	–	3,639	148	4,068	3,776
(135)	(4)	–	(127)	(51,033)	(53,846)	(73,558)
(135)	(4)	–	3,511	(50,885)	(49,777)	(69,781)
72,451	21,171	35	–	(19,642)	226,426	422,079
1,092,671	16,440	-0-	-0-	155,783	1,930,586	2,019,335
–	–	–	–	–	–	(510,828)
1,092,671	16,440	-0-	-0-	155,783	1,930,586	1,508,507
$ 1,165,122	$ 37,611	$ 35	$ -0-	$ 136,141	$ 2,157,012	$ 1,930,586

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DESCRIPTIONS OF PENSION TRUST FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

Additional Pension Trust Fund information regarding plan membership, benefits and funding requirements may be found in the footnote to the financial statements entitled "Pension Benefits."

LEGISLATIVE RETIREMENT FUND

The Legislative Retirement System was created by P.A. 261 of 1957 to provide retirement allowances, survivors' allowances, and other benefits for members of the Legislature and the presiding officers and their widows or children. Participants in the system have a deduction from each salary payment to partly finance the fund. In addition, legislative appropriations, interest on fund investments, and court fees complete the financing.

STATE POLICE RETIREMENT FUND

This fund was created by P.A. 251 of 1935 which was superseded by P.A. 182 of 1986 to provide retirement benefits for State Police officers. It is administered by a nine member board under the direction of a chairperson elected from the membership. Financing is provided by investment income and by an annual legislative appropriation from the General Fund.

STATE EMPLOYEES' RETIREMENT FUND

This fund was established by P.A. 240 of 1943 and is administered by a nine member board under the direction of an Executive Secretary. Public Act 216 of 1974 eliminated the requirement for member contributions and provided for financing by legislative appropriation and investment earnings.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND

In accordance with P.A. 300 of 1980, on October 1, 1981 the Public School Employees' Chapter I Retirement Fund was merged with the Public School Employees' Chapter II Retirement Fund to establish the Public School Employees' Retirement Fund. The two original funds were created by Public Acts 136 of 1945 and 259 of 1974, respectively. Administrative policy is governed by an eight member board.

Financing for the fund is provided by both annual appropriations by the Legislature and employer contributions. Under P.A. 91 of 1985, additional amounts may be contributed by employees to a "member investment plan." Benefit payments and administrative costs are the principal expenses of the fund.

PROBATE JUDGES' AND JUDGES' RETIREMENT FUNDS

Public Act 198 of 1951 and P.A. 165 of 1954 created the Judges' and Probate Judges' Retirement Funds respectively. These funds are administered by their respective boards under direction of the Executive Secretary of the State Employees' Retirement Fund. Financing is from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations. Amendments to the basic law by P.A. 508 and P.A. 510 of 1982 closed the Probate Judges' Retirement Fund to new members. As of January 1983, all new members of the judicial retirement system are included in the Judges' Retirement Fund.

STATE OF MICHIGAN
COMBINING BALANCE SHEET
PENSION TRUST FUNDS
SEPTEMBER 30, 1988
(In Thousands)

	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND	STATE EMPLOYEES' RETIREMENT FUND
ASSETS			
Current Assets:			
Cash and cash equivalents................	$ –	$ –	$ 5
Equity in Common Cash....................	4,046	3,041	37,644
Amounts due from other funds............	119	307	2,459
Amounts due from local units............	100	–	–
Investments.............................	479	47,804	451,387
Other current assets....................	897	3,707	35,216
Total Current Assets..................	5,643	54,860	526,712
Investments..............................	46,001	297,154	2,863,256
Total Assets..........................	$ 51,645	$ 352,015	$ 3,389,969
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Warrants outstanding....................	$ 22	$ 87	$ 1,330
Accounts payable and other liabilities...	107	594	5,404
Total Current Liabilities.............	129	682	6,734
Total Liabilities.....................	129	682	6,734
Fund Balances:			
Reserved for Pension Benefits...........	51,515	351,333	3,383,235
Total Fund Balances...................	51,515	351,333	3,383,235
Total Liabilities and Fund Balances.....	$ 51,645	$ 352,015	$ 3,389,969

PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND	PROBATE JUDGES' RETIREMENT FUND	JUDGES' RETIREMENT FUND	TOTALS	
			SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ -	$ -	$ -	$ 5	$ 10
75,857	562	914	122,066	80,466
1,435	4	54	4,380	11,403
41,209	-	-	41,309	30,672
1,529,955	2,081	13,665	2,045,374	2,332,727
115,477	286	1,786	157,372	246,221
1,763,935	2,935	16,421	2,370,509	2,701,501
9,410,950	12,899	84,141	12,714,404	11,480,517
$11,174,885	$ 15,835	$ 100,562	$15,084,913	$14,182,018
$ 13,004	$ 11	$ 29	$ 14,486	$ 16,615
19,560	28	152	25,846	400,762
32,564	40	182	40,332	417,377
32,564	40	182	40,332	417,377
11,142,320	15,795	100,380	15,044,580	13,764,640
11,142,320	15,795	100,380	15,044,580	13,764,640
$11,174,885	$ 15,835	$ 100,562	$15,084,913	$14,182,018

STATE OF MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
PENSION TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND	STATE EMPLOYEES' RETIREMENT FUND
OPERATING REVENUES:			
Contributions:			
From members	$ 581	$ 33	$ 4,527
From employers	1,707	16,563	198,535
Total contributions from members and employers	2,289	16,597	203,063
Investment revenue (net)	1,877	26,322	257,853
Miscellaneous:			
Court fees for administration and annuities	1,085	-	-
Other	-	-	-
Total miscellaneous	1,085	-	-
Total Operating Revenues	5,252	42,919	460,917
OPERATING EXPENSES:			
Salaries, wages, and other administrative	316	172	1,659
Benefits, insurance, and refunds:			
Benefits paid to participants or beneficiaries	1,986	15,075	143,297
Medical, dental, and life insurance for retirants	862	2,477	36,833
Refunds of member contributions and interest	-	-	124
Total benefits, insurance, and refunds	2,848	17,552	180,255
Total Operating Expenses	3,165	17,725	181,915
Operating Income (Loss)	2,087	25,194	279,001
OPERATING TRANSFERS:			
Operating transfers in	-	-	67
Operating transfers out	(5)	(107)	(995)
Total Operating Transfers In (Out)	(5)	(107)	(928)
Net Income (Loss)	2,082	25,086	278,073
Fund Balances - Beginning of fiscal year	49,433	326,246	3,105,161
Fund Balances - End of fiscal year	$ 51,515	$ 351,333	$ 3,383,235

			TOTALS FISCAL YEARS ENDED	
PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND	PROBATE JUDGES' RETIREMENT FUND	JUDGES' RETIREMENT FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ 141,590	$ 146	$ 2,157	$ 149,036	$ 105,058
597,032	87	1,310	815,238	763,492
738,623	234	3,467	964,274	868,551
851,650	1,145	7,356	1,146,206	1,974,153
-	660	4,675	6,421	7,528
58	-	-	58	171
58	660	4,675	6,480	7,700
1,590,332	2,040	15,499	2,116,961	2,850,404
5,267	48	145	7,610	6,118
529,234	1,157	5,118	695,870	932,198
87,647	-	23	127,843	107,921
1,492	40	13	1,670	1,636
618,374	1,197	5,155	825,383	1,041,756
623,642	1,246	5,300	832,994	1,047,874
966,689	794	10,198	1,283,966	1,802,530
73	-	-	141	116
(2,984)	(17)	(57)	(4,168)	(5,922)
(2,910)	(17)	(57)	(4,027)	(5,806)
963,779	777	10,141	1,279,939	1,796,723
10,178,541	15,017	90,239	13,764,640	11,967,917
$11,142,320	$ 15,795	$ 100,380	$15,044,580	$13,764,640

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
PENSION TRUST FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

	LEGISLATIVE RETIREMENT FUND	STATE POLICE RETIREMENT FUND	STATE EMPLOYEES' RETIREMENT FUND
SOURCES OF FUNDS:			
From operations:			
Net income	$ 2,082	$ 25,086	$ 278,073
Working Capital Provided from Operations	2,082	25,086	278,073
Total Sources of Funds	$ 2,082	$ 25,086	$ 278,073
APPLICATION OF FUNDS:			
Increase in noncurrent investments (net)	$ 4,242	$ 42,491	$ 348,939
Net increase (decrease) in working capital	(2,160)	(17,404)	(70,865)
Total Application of Funds	$ 2,082	$ 25,086	$ 278,073
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash and cash equivalents	$ –	$ –	$ –
Equity in/Liability to Common Cash	(3,606)	(10,160)	(3,059)
Amounts due from other funds	–	(1,288)	(5,790)
Amounts due from local units	65	–	–
Investments	479	(5,639)	(131,371)
Other current assets	(466)	(1,728)	(19,113)
Warrants outstanding	10	109	508
Accounts payable and other liabilities	1,357	1,303	87,960
Net Increase (Decrease) in Working Capital	$ (2,160)	$ (17,404)	$ (70,865)

			TOTALS	
			FISCAL YEARS ENDED	
PUBLIC SCHOOL EMPLOYEES' RETIREMENT FUND	PROBATE JUDGES' RETIREMENT FUND	JUDGES' RETIREMENT FUND	SEPTEMBER 30, 1988	SEPTEMBER 30, 1987
$ 963,779	$ 777	$ 10,141	$ 1,279,939	$ 1,796,723
963,779	777	10,141	1,279,939	1,796,723
$ 963,779	$ 777	$ 10,141	$ 1,279,939	$ 1,796,723
$ 822,037	$ 1,834	$ 14,342	$ 1,233,887	$ 1,237,268
141,741	(1,057)	(4,201)	46,052	559,455
$ 963,779	$ 777	$ 10,141	$ 1,279,939	$ 1,796,723
$ (5)	$ -	$ -	$ (5)	$ -
62,388	(556)	(3,403)	41,600	(69,079)
99	(10)	(33)	(7,023)	(5,764)
10,571	-	-	10,637	(4,837)
(149,074)	(484)	(1,263)	(287,352)	656,936
(67,076)	(80)	(383)	(88,848)	110,919
1,453	1	45	2,129	(3,848)
283,384	73	836	374,915	(124,869)
$ 141,741	$ (1,057)	$ (4,201)	$ 46,052	$ 559,455

STATE OF MICHIGAN

DESCRIPTIONS OF AGENCY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988

RECEIPTS CLEARING FUND

This fund is used by several State departments primarily as a depository for various receipts, the classification as to type of revenue being unknown at the time of deposit. Subsequent to the deposit of monies in this fund, the departments record adjusting entries to credit the proper funds and accounts for revenues received.

METROPOLITAN PLANNING FUND

This fund was established by the Federal Highway Act of 1973, Section 112 and 134 to account for Federal "pass through" funds that reimburse local regional planning agencies for operating expenses. Local money is advanced to the fund, approximately 80% of which is reimbursed to the local unit by the federal government. The financing accounted for in this fund consists of federal and local money, and no State funds are involved.

CONTRIBUTION FUND (SOCIAL SECURITY)

The function of this fund is to account for monies provided for social security coverage of employees of the State of Michigan and its political subdivisions. The fund, established by P.A. 205 of 1951, is administered by the State Employees' Retirement Board. Social Security reports and contributions by the employee and the employer are reported to the board. The various reports and contributions are recapped and forwarded to the Federal Social Security Administration.

Federal legislation was passed amending section 218 of the Social Security Act which required the State to cease collection of contributions before January 1, 1987. The statute of limitations for completion of any adjustment processing is set at three years after audit of activity through December 31, 1986. At that time, the fund and its purpose are expected to become obsolete.

STATE EMPLOYEES' DEFERRED COMPENSATION FUND I (457)

The State Employees' Deferred Compensation Fund I (457) was administratively established to account for a deferred compensation plan which permits all State employees to defer a portion of their income until future years. The plan is administered by the Department of Civil Service. Employee contributions to the fund are recognized as increases to assets and liabilities. Benefits paid and administrative costs decrease assets and liabilities. Administrative costs are appropriated in the General Fund and are reimbursed by this fund. A footnote to the General Purpose Financial Statements, titled "Deferred Compensation Plans," includes additional information on the plan.

SCHOOL EMERGENCY LOAN REVOLVING FUND

This fund was authorized by P.A. 8 of 1977 to furnish emergency financial assistance to insolvent school districts. Since the loan authority expired June 30, 1983, collection of outstanding loans has been the sole purpose of the fund. Loan repayments with interest are transferred annually to the General Fund. The final installment of loan principal and interest was received on June 1, 1988.

HAZARDOUS AND SOLID WASTE DISPOSAL FACILITIES CLOSURE GUARANTEE FUND

This fund was authorized by P.A. 641 of 1978, as amended, and P.A. 64 of 1979 to account for cash bonds posted by applicants desiring licenses to operate hazardous and solid waste disposal areas. In accordance with P.A. 641 of 1978, as amended, interest earnings up to 6% are credited to the applicant's account. This act also specifies the circumstances under which the director of the Department of Natural Resources is authorized to use the deposits to close and maintain a facility or return the deposit upon the operator's satisfactory closure and maintenance of the facility.

INSURANCE CARRIER DEPOSITS FUND

This fund was administratively established as of October 1, 1986 to account for deposits held by the State Treasurer on behalf of insurance carriers who operate in this State and are required by P.A. 218 of 1956, as amended, to provide such deposits. Additional deposits, related to insurance companies in receivership, are held under the control of the Insurance Bureau of the Department of Licensing and Regulation. All deposits are in the form of various securities and other acceptable assets.

STATE OF MICHIGAN

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

RECEIPTS CLEARING FUND

	BALANCE OCTOBER 1, 1987	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 1988
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 2,926	$ 3,471	$ 2,926	$ 3,471
Equity in Common Cash	984	1,976,563	1,977,547	-
Other current assets	1,264	545	1,309	499
Total Assets	$ 5,174	$ 1,980,580	$ 1,981,783	$ 3,971
LIABILITIES				
Current Liabilities:				
Liability to Common Cash	$ -	$ 2,726	$ -	$ 2,726
Warrants outstanding	80	209	-	289
Accounts payable and other liabilities	5,084	1,968,877	1,973,086	875
Amounts due to other funds	10	80	10	80
Total Liabilities	$ 5,174	$ 1,971,893	$ 1,973,096	$ 3,971

METROPOLITAN PLANNING FUND

	BALANCE OCTOBER 1, 1987	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 1988
ASSETS				
Current Assets:				
Equity in Common Cash	$ 81	$ 2,305	$ 2,278	$ 108
Amounts due from federal agencies	489	383	489	383
Total Assets	$ 571	$ 2,688	$ 2,768	$ 491
LIABILITIES				
Current Liabilities:				
Warrants outstanding	$ 20	$ -	$ 16	$ 4
Accounts payable and other liabilities	550	2,276	2,339	487
Total Liabilities	$ 571	$ 2,276	$ 2,356	$ 491

CONTRIBUTION FUND (SOCIAL SECURITY)

	BALANCE OCTOBER 1, 1987	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 1988
ASSETS				
Current Assets:				
Equity in Common Cash	$ 2,738	$ 704	$ 1,046	$ 2,396
Total Assets	$ 2,738	$ 704	$ 1,046	$ 2,396
LIABILITIES				
Current Liabilities:				
Warrants outstanding	$ 2	$ -	$ 1	$ 1
Accounts payable and other liabilities	2,735	652	992	2,395
Total Liabilities	$ 2,738	$ 652	$ 994	$ 2,396

Continued on next page.

STATE OF MICHIGAN

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 1988

(In Thousands)

STATE EMPLOYEES DEFERRED COMPENSATION FUND I (457)		BALANCE OCTOBER 1, 1987		ADDITIONS		DEDUCTIONS		BALANCE SEPTEMBER 30, 1988
ASSETS								
Current Assets:								
Equity in Common Cash	$	15,889	$	125,336	$	122,063	$	19,162
Amounts due from other funds		235		466		235		466
Total Current Assets		16,125		125,802		122,299		19,628
Investments		573,426		238,195		118,342		693,279
Total Assets	$	589,551	$	363,998	$	240,642	$	712,907
LIABILITIES								
Current Liabilities:								
Warrants outstanding	$	35	$	-	$	15	$	19
Accounts payable and other liabilities		2		-		-		3
Total Current Liabilities		38		-		15		22
Long-Term Liabilities:								
Other long-term liabilities		589,513		160,050		36,679		712,884
Total Liabilities	$	589,551	$	160,051	$	36,695	$	712,907

SCHOOL EMERGENCY LOAN REVOLVING FUND								
ASSETS								
Current Assets:								
Equity in Common Cash	$	-	$	157	$	157	$	-
Amounts due from local units		153		-		153		-
Total Assets	$	153	$	157	$	310	$	-0-
LIABILITIES								
Current Liabilities:								
Accounts payable and other liabilities	$	3	$	7	$	10	$	-
Amounts due to other funds		150		-		150		-
Total Liabilities	$	153	$	7	$	160	$	-0-

HAZARDOUS AND SOLID WASTE DISPOSAL FACILITIES CLOSURE GUARANTEE FUND								
ASSETS								
Current Assets:								
Equity in Common Cash	$	181	$	17	$	7	$	191
Amounts due from other funds		3		3		3		3
Total Assets	$	184	$	21	$	10	$	195
LIABILITIES								
Current Liabilities:								
Accounts payable and other liabilities	$	184	$	16	$	4	$	195
Total Liabilities	$	184	$	16	$	4	$	195

Continued on next page.

STATE OF MICHIGAN
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

INSURANCE CARRIER DEPOSITS FUND

	BALANCE OCTOBER 1, 1987	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 1988
ASSETS				
Current Assets:				
Equity in Common Cash	$ 1,020	$ 16,247	$ 15,088	$ 2,180
Total Current Assets	1,020	16,247	15,088	2,180
Other noncurrent assets	264,884	45,651	25,879	284,656
Total Assets	$ 265,905	$ 61,899	$ 40,968	$ 286,836
LIABILITIES				
Current Liabilities:				
Accounts payable and other liabilities	$ -	$ 15,093	$ 15,088	$ 5
Total Current Liabilities	-	15,093	15,088	5
Long-Term Liabilities:				
Other long-term liabilities	265,905	46,826	25,900	286,831
Total Liabilities	$ 265,905	$ 61,920	$ 40,989	$ 286,836

TOTALS - ALL AGENCY FUNDS

	BALANCE OCTOBER 1, 1987	ADDITIONS	DEDUCTIONS	BALANCE SEPTEMBER 30, 1988
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 2,926	$ 3,471	$ 2,926	$ 3,471
Equity in Common Cash	20,895	2,121,331	2,118,188	24,039
Amounts due from other funds	239	470	239	470
Amounts due from federal agencies	489	383	489	383
Amounts due from local units	153	-	153	-
Other current assets	1,264	545	1,310	499
Total Current Assets	25,968	2,126,202	2,123,306	28,863
Investments	573,426	238,195	118,342	693,279
Other noncurrent assets	264,884	45,651	25,879	284,656
Total Assets	$ 864,279	$ 2,410,049	$ 2,267,529	$ 1,006,799
LIABILITIES				
Current Liabilities:				
Liability to Common Cash	$ -	$ 2,726	$ -	$ 2,726
Warrants outstanding	139	209	34	314
Accounts payable and other liabilities	8,560	1,986,924	1,991,522	3,962
Amounts due to other funds	160	80	160	80
Total Current Liabilities	8,860	1,989,940	1,991,717	7,083
Long-Term Liabilities:				
Other long-term liabilities	855,419	206,876	62,580	999,715
Total Liabilities	$ 864,279	$ 2,196,817	$ 2,054,297	$ 1,006,799

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II FINANCIAL SECTION

SUPPLEMENTAL FINANCIAL DATA

SCHEDULES

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STATE OF MICHIGAN

SCHEDULE OF GENERAL FIXED ASSETS ACCOUNT GROUP BY FUNCTION

SEPTEMBER 30, 1988

(In Thousands)

FUNCTION	LAND	BUILDINGS	EQUIPMENT	TOTAL
General government	$ 30,986	$ 179,890	$ 70,206	$ 281,083
Education	313	11,625	9,016	20,955
Health and welfare	1,918	96,498	58,017	156,435
Public safety and corrections	10,921	430,472	66,635	508,029
Conservation, recreation, and agriculture	110,601	45,633	55,605	211,839
Labor, commerce, and regulatory	683	12,357	40,020	53,061
Mental health	23,836	260,821	32,742	317,399
Transportation	3,407	50,793	85,066	139,266
Total general fixed assets allocated to functions	$ 182,668	$ 1,088,092	$ 417,310	1,688,071
Construction in progress				226,912
Total general fixed assets				$ 1,914,983

SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION

FISCAL YEAR ENDED SEPTEMBER 30, 1988

(In Thousands)

FUNCTION	BALANCE SEPTEMBER 30, 1987	ADDITIONS	DELETIONS	ADJUSTMENTS AND RECLASSIFICATIONS	BALANCE SEPTEMBER 30, 1988
General government	$ 280,427	$ 12,589	$ 4,534	$ (7,398)	$ 281,083
Education	20,614	707	479	113	20,955
Health and welfare	133,507	30,330	6,505	(896)	156,435
Public safety and corrections	480,326	17,669	3,974	14,007	508,029
Conservation, recreation, and agriculture	203,455	7,172	1,656	2,868	211,839
Labor, commerce, and regulatory	42,195	5,798	313	5,381	53,061
Mental health	283,144	5,447	5,317	34,126	317,399
Transportation	115,572	7,625	3,916	19,984	139,266
Total general fixed assets allocated to functions	1,559,243	87,340	26,698	68,186	1,688,071
Construction in progress	90,056	151,307	-	(14,452)	226,912
Total general fixed assets	$ 1,649,300	$ 238,648	$ 26,698	$ 53,733	$ 1,914,983

STATE OF MICHIGAN
COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES
GENERAL AND SPECIAL REVENUE FUNDS – STATE FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

SOURCE	TOTAL	GENERAL FUND	SPECIAL REVENUE FUNDS
TAXES			
Sales tax	$ 2,474,963	$ 947,703	$ 1,527,259
Personal income tax	3,573,727	3,573,727	–
Corporation income tax	1,225	1,225	–
Single business tax	1,828,702	1,828,702	–
Use tax	418,969	418,969	–
Cigarette tax	264,496	242,851	21,645
Beer and wine tax	53,273	53,273	–
Liquor tax	59,631	39,750	19,881
Horse race wagering tax	20,172	20,172	–
Intangibles tax	79,782	79,782	–
Inheritance tax	93,799	93,799	–
Telephone and telegraph company tax	128,589	128,589	–
Insurance company taxes	43,881	43,881	–
Motor vehicle weight tax	363,183	–	363,183
Gasoline tax	628,543	–	628,543
Aviation fuel tax	5,659	–	5,659
Diesel fuel tax	52,171	–	52,171
Gas and oil severance tax	43,581	43,581	–
Industrial facilities tax	68,717	–	68,717
Penalties and interest – various taxes	65,496	65,496	–
Convention hotel accommodation tax	9,167	9,167	–
Airport parking tax	5,167	5,167	–
Other taxes	2,634	1,722	912
	10,285,539	7,597,564	2,687,974
FROM FEDERAL AGENCIES			
Department of Health and Human Services	2,488,224	2,487,727	496
Department of Education	268,159	226,536	41,623
Department of Agriculture	224,135	224,117	18
Department of Labor	266,910	146,506	120,403
Department of Housing and Urban Development	34,168	34,168	–
Environmental Protection Agency	19,323	19,323	–
Department of Energy	12,638	12,638	–
Department of Transportation	340,455	7,308	333,147
Department of Interior	11,611	10,238	1,372
Department of Defense	12,891	12,697	193
Department of Justice	8,767	8,767	–
Other federal agencies	27,439	26,087	1,352
	3,714,726	3,216,117	498,608
FROM LOCAL AGENCIES			
Counties	91,864	83,179	8,684
Cities, villages, and townships	18,355	17,356	999
Colleges and universities	5,191	5,191	–
School districts	6,011	6,011	–
Multi-level governmental units	10,406	1,094	9,312
Other local agencies	19,982	8,880	11,102
	151,811	121,713	30,098

Continued on next page.

STATE OF MICHIGAN
COMBINED SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES
GENERAL AND SPECIAL REVENUE FUNDS – STATE FUNDS (Continued)
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

SOURCE	TOTAL	GENERAL FUND	SPECIAL REVENUE FUNDS
FROM SERVICES			
Charges for furnishing vehicle driver records	$ 21,305	$ 21,305	$ –
Revenue for patient, ward, and inmate care	70,381	70,381	–
Other services	11,879	10,991	888
	103,565	102,677	888
FROM LICENSES AND PERMITS			
Liquor retailers', manufacturers', and wholesalers' licenses	11,541	11,541	–
Motor vehicle operators' and chauffeurs' licenses	26,445	18,185	8,260
Examination fees — financial institutions and insurance industry	8,348	8,348	–
Department of Licensing and Regulation licenses and permits	18,781	18,781	–
Concession and privilege fees – State parks	10,002	10,002	–
Motor vehicle related	50,370	5,436	44,934
Hunting, fishing, and trapping licenses	41,412	–	41,412
Public utility assessment fees	15,007	15,007	–
Department of Commerce licenses and permits	4,332	4,332	–
Department of Agriculture licenses and permits	1,197	1,197	–
Auto repair facilities and mechanics licenses and fees	3,077	3,077	–
Corporation franchise fees	5,646	5,646	–
Other licenses and permits	20,334	10,312	10,021
	216,490	111,861	104,628
MISCELLANEOUS			
Income from investments	71,059	1,229	69,830
Various fines, fees, and assessments	16,298	10,870	5,428
Court fines, fees, and assessments	17,040	11,014	6,026
Oil and gas royalties, fees, assignments, and rentals	47,413	6,259	41,153
International Bridge Authority reimbursements	1,426	–	1,426
Sale of forest products on tax reverted land	6,489	6,489	–
Child support	130,231	130,231	–
Sale of land	3,711	268	3,443
Third party	4,543	4,543	–
Other	84,304	61,126	23,177
	382,518	232,032	150,486
Total Revenues	14,854,652	11,381,967	3,472,685
OTHER FINANCING SOURCES			
Proceeds from bond issues and bond anticipation notes	300	–	300
Capital lease acquisitions	26,490	26,472	18
Settlement from local unit	33,995	33,995	–
Operating transfers in:			
From general and special revenue funds	1,287,509	173,774	1,113,734
From Liquor Purchase Revolving Fund	64,632	64,632	–
From State Lottery Fund	489,112	676	488,436
From Escheats Fund	11,244	11,244	–
From Gifts, Bequests, and Deposits Investment Fund	37,649	37,649	–
From State Building Authority	13,000	13,000	–
From other funds	16,076	11,247	4,828
Total Other Financing Sources	1,980,011	372,694	1,607,317
Total Revenue and Other Financing Sources	$16,834,664	$11,754,661	$ 5,080,002

STATE OF MICHIGAN
SOURCE AND DISPOSITION OF GENERAL FUND AUTHORIZATIONS
FISCAL YEAR ENDED SEPTEMBER 30, 1988
(In Thousands)

BRANCH AND DEPARTMENT	CURRENT LEGISLATIVE APPROPRIATION	UNEXPENDED BALANCES FROM PRIOR YEARS	RESTRICTED REVENUE ADDITIONS	BUDGETARY TRANSFERS IN (OUT)	GROSS AUTHORIZATIONS
Legislative Branch	$ 99,160	$ 18,225	$ 5,339	$ 999	$ 123,724
Judicial Branch	99,911	112	31,486	38	131,548
Executive Branch:					
Executive Office	4,827	22	-	-	4,849
Management and Budget	177,225	173,029	1,024,557	(8,252)	1,366,559
Attorney General	22,749	177	6,718	2	29,645
Civil Rights	11,179	49	1,454	-	12,681
Civil Service	11,814	292	5,337	-	17,444
State	15,197	1,908	88,704	1	105,810
Treasury	110,763	21,486	116,590	-	248,839
Education	727,175	2,539	425,169	2,944	1,157,828
Grants to Colleges and Universities	1,235,691	56,410	10,625	133	1,302,860
Public Health	142,142	14,773	168,570	2,635	328,121
Mental Health	764,741	38,860	306,868	2,724	1,113,194
Social Services	2,101,854	31,280	2,324,805	2,290	4,460,230
Corrections	559,488	112,512	23,060	2,447	697,506
Military Affairs	14,061	7,890	9,442	384	31,776
State Police	160,386	17,452	31,467	1,365	210,671
Transportation	-	100	-	-	100
Commerce	101,270	32,174	87,287	(983)	219,748
Labor	79,680	32,507	200,504	(8,185)	304,506
Licensing and Regulation	14,032	496	9,232	-	23,762
Natural Resources	117,549	78,602	123,785	716	320,652
Agriculture	29,273	10,658	27,610	732	68,274
Items Not Assigned to Departments	-	-	-	-	-
TOTAL	$ 6,599,377	$ 651,553	$ 5,028,609	$ -	$12,279,540

*Unused spending authority which does not lapse has been broken into two categories:

Timing differences are subtracted from Gross Authorizations in order to show an annualized Budget that is comparable to the current year's Actual uses. Timing differences consist of unused authorizations for multiyear projects, such as capital outlay and work projects, and also restricted revenues which were not available for expenditure in the current year because they had not been appropriated.

Restricted revenue balances forward in the Variances category represents restricted revenue carry-overs that could have been used in the current period but were not.

NOTE: This schedule was prepared on the Statutory/Budgetary basis.

	"BUDGET"	"ACTUAL"		"FAVORABLE VARIANCES"		"UNFAVORABLE VARIANCES"
LESS: TIMING DIFFERENCES*	AS PRESENTED IN STATEMENTS	EXPENDED AND TRANSFERRED	ENCUMBERED BALANCES FORWARD	RESTRICTED REVENUE BALANCES FORWARD*	LAPSED	OVER EXPENDED
$ 14,494	$ 109,230	$ 105,337	$ 1,399	$ 1,560	$ 994	$ 61
-	111,548	110,469	880	-	198	-
-	4,049	3,795	4	-	250	-
158,144	1,208,415	1,199,108	1,225	3,564	4,517	-
14	29,630	28,099	122	-	1,408	-
-	12,683	12,245	34	-	403	-
-	17,444	15,499	1,552	-	392	-
757	105,053	101,619	1,376	288	1,800	32
18,043	230,796	222,359	460	139	7,837	-
2,917	1,154,911	1,152,244	1,018	-	1,673	25
36,348	1,266,511	1,266,460	-	-	51	-
12,969	315,151	305,283	8,836	1	1,030	1
31,071	1,082,122	1,114,417	3,453	1,789	968	38,506
26,381	4,433,848	4,485,825	13,163	-	24,368	89,508
81,812	615,693	611,705	2,797	7	1,819	635
5,437	26,339	25,389	347	-	606	4
18,245	192,425	190,323	835	2	1,772	507
-	100	100	-	-	-	-
12,286	207,461	198,172	7,361	272	1,663	9
6,443	298,063	262,667	18,819	12,238	4,494	155
-	23,762	22,336	637	118	720	51
49,816	270,835	241,598	14,112	11,581	3,833	290
2,409	65,865	55,005	1,533	7,390	2,032	96
-	-	2	-	-	-	2
$ 477,594	$11,801,945	$11,750,066	$ 79,973	$ 38,955	$ 62,840	$ 129,889

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III STATISTICAL SECTION

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STATE OF MICHIGAN
REQUIRED SUPPLEMENTARY HISTORICAL TREND INFORMATION
JUDGES' RETIREMENT SYSTEM
LAST FOUR YEARS
SEPTEMBER 30, 1988
(In Millions)

I Analysis of Funding Progress

Fiscal Year	Net Assets* Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll
1984-1985	$ 64.2	$ 85.6	75.0%	$ 21.4	$ 25.6	83.6%
1985-1986	75.5	93.3	80.9	17.8	27.4	65.0
1986-1987	90.2	112.9	79.9	22.7	31.1	73.0
1987-1988	100.4	124.1	80.9	23.7	34.1	69.5

II Revenues by Source and Expenses (and Operating Transfers Out) by Type

	Revenues By Source				
Fiscal Year	Employee Contributions	Employer Contributions	Investment Income	Other Income	Total
1984-1985	$1.7	$1.0	$ 5.7	$5.2	$13.6
1985-1986	1.8	1.1	8.3	5.7	16.8
1986-1987	2.0	1.2	12.3	5.9	21.3
1987-1988	2.2	1.3	7.4	4.7	15.5

	Expenses (and Operating Transfers Out) By Type				
Fiscal Year	Benefits	Administration Expenses	Refunds	Other	Total
1984-1985	$3.8	$ .1	$ –	$1.8	$ 5.8
1985-1986	3.8	.1	–	1.6	5.4
1986-1987	5.0	.2	–	1.4	5.7
1987-1988	5.1	.2	–	–	5.4

Schedule I demonstrates the progress the fund has made in accumulating sufficient assets to pay benefits when due. Since both the unfunded pension benefit obligation and the annual covered payroll are affected by inflation, the calculation of the unfunded pension benefit obligation as a percent of covered payroll provides information for analysis which substantially adjusts for inflation.

Schedule II presents revenues by source and expenses by type. Contributions were made in accordance with actuarially determined contribution requirements unless specifically identified.

Information for fiscal years prior to 1984-85 is not available. Each year these schedules will be expanded until they present 10 years of information.

*at cost

STATE OF MICHIGAN
REQUIRED SUPPLEMENTARY HISTORICAL TREND INFORMATION
PROBATE JUDGES' RETIREMENT SYSTEM
LAST FOUR YEARS
SEPTEMBER 30, 1988
(In Millions)

I Analysis of Funding Progress

Fiscal Year	Net Assets* Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll
1984-1985	$ 11.8	$ 16.3	72.4%	$ 4.5	$ 4.2	107.1%
1985-1986	13.2	17.6	75.0	4.4	4.1	107.3
1986-1987	15.0	19.9	75.4	4.9	4.7	104.3
1987-1988	15.8	21.1	74.9	5.3	4.5	117.4

II Revenues by Source and Expenses (and Operating Transfers Out) by Type

	Revenues By Source				
Fiscal Year	Employee Contributions	Employer Contributions	Investment Income	Other Income	Total
1984-1985	$ .2	$ .1	$ 1.1	$ .7	$ 2.0
1985-1986	.2	.1	1.4	.7	2.4
1986-1987	.1	.1	2.1	.7	3.0
1987-1988	.1	.1	1.1	.7	2.0

	Expenses (and Operating Transfers Out) By Type				
Fiscal Year	Benefits	Administration Expenses	Refunds	Other	Total
1984-1985	$ .8	$ -	$ -	$ -	$ .8
1985-1986	.9	.1	-	-	1.0
1986-1987	1.0	.1	-	-	1.1
1987-1988	1.2	-	-	-	1.2

Schedule I demonstrates the progress the fund has made in accumulating sufficient assets to pay benefits when due. Since both the unfunded pension benefit obligation and the annual covered payroll are affected by inflation, the calculation of the unfunded pension benefit obligation as a percent of covered payroll provides information for analysis which substantially adjusts for inflation.

Schedule II presents revenues by source and expenses by type. Contributions were made in accordance with actuarially determined contribution requirements unless specifically identified.

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*at cost

STATE OF MICHIGAN
REQUIRED SUPPLEMENTARY HISTORICAL TREND INFORMATION
LEGISLATIVE RETIREMENT SYSTEM
LAST FOUR YEARS
SEPTEMBER 30, 1988
(In Millions)

I Analysis of Funding Progress

Fiscal Year	Net Assets* Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll
1984-1985	$ 39.2	$ 41.2	95.1%	$ 2.0	$ 4.9	40.8%
1985-1986	43.4	44.8	96.9	1.4	5.4	25.9
1986-1987	49.4	53.0	93.2	3.6	5.7	63.2
1987-1988	51.5	57.1	90.3	5.5	5.9	93.2

II Revenues by Source and Expenses (and Operating Transfers Out) by Type

	Revenues By Source				
Fiscal Year	Employee Contributions	Employer Contributions	Investment Income	Other Income	Total
1984-1985	$ .3	$1.4	$ 3.6	$ .9	$ 6.3
1985-1986	.4	1.5	3.6	1.0	6.4
1986-1987	.4	1.6	5.5	1.0	8.6
1987-1988	.6	1.7	1.9	1.1	5.3

	Expenses (and Operating Transfers Out) By Type				
Fiscal Year	Benefits	Administration Expenses	Refunds	Other	Total
1984-1985	$2.0	$ .1	$ -	$ -	$ 2.1
1985-1986	2.0	.2	-	-	2.2
1986-1987	2.3	.3	-	-	2.6
1987-1988	2.8	.3	-	-	3.2

Schedule I demonstrates the progress the fund has made in accumulating sufficient assets to pay benefits when due. Since both the unfunded pension benefit obligation and the annual covered payroll are affected by inflation, the calculation of the unfunded pension benefit obligation as a percent of covered payroll provides information for analysis which substantially adjusts for inflation.

Schedule II presents revenues by source and expenses by type. Contributions were made in accordance with actuarially determined contribution requirements unless specifically identified.

Information for fiscal years prior to 1984-85 is not available. Each year these schedules will be expanded until they present 10 years of information.

*at cost

STATE OF MICHIGAN
REQUIRED SUPPLEMENTARY HISTORICAL TREND INFORMATION
STATE EMPLOYEES' RETIREMENT SYSTEM
LAST FOUR YEARS
SEPTEMBER 30, 1988
(In Millions)

I Analysis of Funding Progress

Fiscal Year	Net Assets* Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded (Assets in Excess of) Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll
1984-1985	$2,349.5	$2,480.8	94.7%	$131.3	$1,516.0	8.7%
1985-1986	2,668.6	2,764.1	96.5	95.5	1,643.3	5.8
1986-1987	3,105.2	3,088.6	100.5	(16.6)	1,820.8	.9
1987-1988	3,383.2	3,386.8	99.9	3.6	1,945.7	.1

II Revenues by Source and Expenses (and Operating Transfers Out) by Type

	Revenues By Source				
Fiscal Year	Employee Contributions	Employer Contributions	Investment Income	Other Income	Total
1984-1985	$ .7	$195.8	$213.6	$ -	$410.2
1985-1986	1.6	230.0	306.1	-	537.6
1986-1987	2.4	227.7	434.6	-	664.6
1987-1988	4.5	198.5	257.9	-	460.9

	Expenses (and Operating Transfers Out) By Type				
Fiscal Year	Benefits	Administration Expenses	Refunds	Other	Total
1984-1985	$126.9	$2.4	$ .2	$ -	$129.5
1985-1986	215.8	2.4	.3	-	218.5
1986-1987	225.4	2.6	.1	-	228.1
1987-1988	180.1	2.7	.1	-	182.9

Schedule I demonstrates the progress the fund has made in accumulating sufficient assets to pay benefits when due. Since both the unfunded pension benefit obligation and the annual covered payroll are affected by inflation, the calculation of the unfunded pension benefit obligation as a percent of covered payroll provides information for analysis which substantially adjusts for inflation.

Schedule II presents revenues by source and expenses by type. Contributions were made in accordance with actuarially determined contribution requirements unless specifically identified.

Information for fiscal years prior to 1984-85 is not available. Each year these schedules will be expanded until they present 10 years of information.

*at cost

STATE OF MICHIGAN
REQUIRED SUPPLEMENTARY HISTORICAL TREND INFORMATION
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST FOUR YEARS
SEPTEMBER 30, 1988
(In Millions)

I Analysis of Funding Progress

Fiscal Year	Net Assets* Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll
1984-1985	$ 7,908.1	$ 8,685.5	91.0%	$ 777.4	$4,220.3	18.4%
1985-1986	8,890.6	10,525.6	84.5	1,635.0	4,561.4	35.8
1986-1987	10,178.5	13,021.9	78.2	2,843.3	4,749.9	59.9
1987-1988	11,142.3	14,679.1	75.9	3,536.8	5,274.2	67.1

II Revenues by Source and Expenses (and Operating Transfers Out) by Type

Revenues By Source

Fiscal Year	Employee Contributions	State Contributions	Investment Income	Other Income	Total
1984-1985	$ 6.0	$532.6	$ 715.3	$ -	$1,254.0
1985-1986	14.8	567.8	1,030.1	-	1,612.8
1986-1987	100.1	513.2	1,474.3	.1	2,087.8
1987-1988	141.6	597.0	851.7	.1	1,590.4

Expenses (and Operating Transfers Out) By Type

Fiscal Year	Benefits	Administration Expenses	Refunds	Other	Total
1984-1985	$371.0	$6.3	$2.2	$ -	$379.5
1985-1986	621.0	7.5	1.8	-	630.3
1986-1987	791.2	7.2	1.5	-	799.9
1987-1988	616.9	8.3	1.5	-	626.6

Schedule I demonstrates the progress the fund has made in accumulating sufficient assets to pay benefits when due. Since both the unfunded pension benefit obligation and the annual covered payroll are affected by inflation, the calculation of the unfunded pension benefit obligation as a percent of covered payroll provides information for analysis which substantially adjusts for inflation.

Schedule II presents revenues by source and expenses by type. Contributions were made in accordance with actuarially determined contribution requirements unless specifically identified.

Information for fiscal years prior to 1984-85 is not available. Each year these schedules will be expanded until they present 10 years of information.

*at cost

STATE OF MICHIGAN
REQUIRED SUPPLEMENTARY HISTORICAL TREND INFORMATION
STATE POLICE RETIREMENT SYSTEM
LAST FOUR YEARS
SEPTEMBER 30, 1988
(In Millions)

I Analysis of Funding Progress

Fiscal Year	Net Assets* Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll
1984-1985	$241.2	$339.7	71.0%	$ 98.5	$ 69.4	141.9%
1985-1986	276.7	367.9	75.2	91.2	74.0	123.2
1986-1987	326.2	415.3	78.5	89.1	77.4	115.1
1987-1988	351.3	434.9	80.8	83.6	82.3	101.6

II Revenues by Source and Expenses (and Operating Transfers Out) by Type

	Revenues By Source				
Fiscal Year	Employee Contributions	Employer Contributions	Investment Income	Other Income	Total
1984-1985	$ -	$19.4	$21.8	$ -	$41.2
1985-1986	-	15.6	32.5	-	48.1
1986-1987	.1	19.6	45.4	-	65.1
1987-1988	-	16.6	26.3	-	42.9

	Expenses (and Operating Transfers Out) By Type				
Fiscal Year	Benefits	Administration Expenses	Refunds	Other	Total
1984-1985	$12.0	$ .1	$ -	$ -	$12.1
1985-1986	12.4	.2	-	-	12.6
1986-1987	15.3	.3	-	-	15.5
1987-1988	17.6	.3	-	-	17.8

Schedule I demonstrates the progress the fund has made in accumulating sufficient assets to pay benefits when due. Since both the unfunded pension benefit obligation and the annual covered payroll are affected by inflation, the calculation of the unfunded pension benefit obligation as a percent of covered payroll provides information for analysis which substantially adjusts for inflation.

Schedule II presents revenues by source and expenses by type. Contributions were made in accordance with actuarially determined contribution requirements unless specifically identified.

Information for fiscal years prior to 1984-85 is not available. Each year these schedules will be expanded until they present 10 years of information.

*at cost

STATE OF MICHIGAN
REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS
GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS
LAST TEN YEARS
SEPTEMBER 30, 1988
(In Thousands)

SOURCE	1978-1979	1979-1980	1980-1981	1981-1982
TAXES:				
Sales	$ 1,506,294	$ 1,503,972	$ 1,594,970	$ 1,570,630
Personal Income	1,943,478	1,912,044	2,036,016	2,162,858
Single Business	1,001,300	1,076,010	942,249	943,148
Use Tax	232,895	232,319	245,689	247,358
Liquor, Beer, Wine, and Cigarette Tax	225,930	229,104	243,254	279,778
Telephone and Telegraph Company Tax	87,413	93,828	98,773	105,195
Insurance Company Taxes	108,778	148,569	110,972	104,253
Motor Vehicle and Fuel Tax	742,512	713,455	652,121	671,429
Other Taxes	195,421	217,094	270,973	286,539
TOTAL TAXES	6,044,023	6,126,400	6,195,020	6,371,191
FEDERAL AGENCIES	2,129,729	2,452,370	2,602,459	2,635,608
LOCAL AGENCIES	37,982	52,137	71,149	119,144
SERVICES	46,332	50,039	55,827	59,779
LICENSES AND PERMITS	97,408	118,772	126,897	123,053
MISCELLANEOUS	186,509	229,929	229,039	195,383
TOTAL REVENUE	8,541,985	9,029,649	9,280,393	9,504,160
PROCEEDS FROM BOND ISSUES	-	106,329	64,010	-
CAPITAL LEASE ACQUISITIONS	-	-	-	-
TOTAL REVENUE, BOND PROCEEDS, AND CAPITAL LEASE ACQUISITIONS	$ 8,541,985	$ 9,135,978	$ 9,344,403	$ 9,504,160

NOTES: This schedule was prepared on the Statutory/Budgetary basis for years prior to 1981-82, and on the Generally Accepted Accounting Principles (GAAP) basis for years subsequent to 1980-81.

Proceeds from bond sales were recorded in "bond funds," rather than in special revenue funds for periods prior to 1979-80.

The recording of capital lease acquisitions began in 1984-85 and prior year amounts are not available.

1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988
$ 1,698,983	$ 1,924,996	$ 2,142,624	$ 2,283,138	$ 2,348,446	$ 2,474,963
2,770,377	3,189,705	3,311,680	3,153,952	3,350,297	3,573,727
1,041,745	1,280,547	1,378,424	1,526,598	1,497,622	1,828,702
279,516	317,332	341,400	390,839	397,800	418,969
331,975	331,881	334,530	330,842	332,528	377,401
107,984	113,073	110,236	116,880	122,801	128,589
101,573	103,411	116,994	148,551	140,093	43,881
704,118	828,555	981,431	1,004,476	1,024,709	1,049,558
301,159	316,232	240,704	315,524	377,432	389,746
7,337,434	8,405,736	8,958,026	9,270,804	9,591,730	10,285,539
2,770,046	3,030,149	3,190,771	3,498,625	3,613,402	3,714,726
140,489	122,772	118,064	127,566	134,251	151,811
62,511	53,625	92,459	112,844	101,040	103,565
129,253	137,557	147,879	151,617	175,572	216,490
142,791	220,590	314,287	445,957	392,736	382,518
10,582,524	11,970,430	12,821,486	13,607,416	14,008,735	14,854,652
132,186	107,714	32,875	7,518	-	300
-	-	25,071	9,100	12,246	26,490
$10,714,710	$12,078,144	$12,879,434	$13,624,035	$14,020,981	$14,881,443

STATE OF MICHIGAN
SCHEDULE OF EXPENDITURES BY FUNCTION
GENERAL AND SPECIAL REVENUE FUNDS - STATE FUNDS
LAST TEN YEARS
SEPTEMBER 30, 1988
(In Thousands)

	1978-1979	1979-1980	1980-1981	1981-1982
Current:				
General government	$ 317,904	$ 345,064	$ 393,324	$ 487,728
Education	2,977,051	3,121,272	2,949,451	2,740,083
Health and welfare	2,558,304	3,032,898	3,284,977	3,591,335
Public safety and corrections	266,892	309,790	338,269	361,914
Conservation, recreation, and agriculture	142,778	171,834	169,721	174,602
Labor, commerce, and regulatory	285,184	347,309	416,901	387,837
Mental health	450,925	537,906	714,708	627,201
Transportation	602,054	669,645	659,516	669,724
Items not assigned to a function	639,979	667,014	-	8,238
Capital outlay	396,386	443,852	329,670	388,955
Intergovernmental - revenue sharing	-	-	542,232	525,124
Debt service - capital lease payments	-	-	-	-
Total Expenditures	$ 8,637,461	$ 9,646,589	$ 9,798,774	$ 9,962,661

NOTE: This schedule was prepared on the statutory/budgetary basis for years prior to 1981-82, and on the Generally Accepted Accounting Principles (GAAP) basis for years subsequent to 1980-81.

For years prior to 1980-81, "Intergovernmental - revenue sharing" was included in "Items not assigned to a function."

The recording of payments on capital leases as debt service expenditures began in 1984-85 and comparable prior year numbers are not available.

1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988
$ 437,401	$ 497,204	$ 536,658	$ 615,666	$ 610,583	$ 758,267
3,002,609	3,269,098	3,629,377	4,055,335	4,275,186	4,547,950
3,770,789	4,042,865	4,187,289	4,471,975	4,636,720	4,784,690
374,122	424,621	485,832	573,394	687,719	774,301
185,585	182,347	214,510	253,893	270,509	291,564
444,322	501,165	523,445	535,803	595,868	596,703
630,294	711,658	815,537	903,129	1,022,501	1,100,307
667,677	782,802	840,177	853,218	904,401	958,246
64,378	6,913	2,728	121	57	2
278,075	406,988	428,598	588,524	616,875	571,573
595,097	674,312	761,748	831,087	879,238	929,574
-	-	17,879	20,858	25,987	35,183
$10,450,343	$11,499,978	$12,443,785	$13,703,009	$14,525,650	$15,348,364

STATE OF MICHIGAN
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS
LAST TEN YEARS
SEPTEMBER 30, 1988
(In Thousands)

FISCAL YEAR	PRINCIPAL	INTEREST AND FISCAL CHARGES	TOTAL DEBT SERVICE EXPENDITURES	TOTAL GENERAL FUND EXPENDITURES AND TRANSFERS	RATIO OF DEBT SERVICE EXPENDITURES TO GENERAL FUND EXPENDITURES AND TRANSFERS
1978-1979	$40,470	$23,088	$63,558	$6,853,855	.93
1979-1980	34,984	21,085	56,069	7,563,326	.74
1980-1981	33,885	17,341	51,227	7,482,732	.68
1981-1982	40,279	16,579	56,859	7,516,015	.76
1982-1983	43,000	14,471	57,471	8,143,129	.71
1983-1984	41,000	12,367	53,367	9,051,729	.59
1984-1985	44,418	12,185	56,603	9,724,446	.58
1985-1986	51,200	12,911	64,111	10,512,879	.60
1986-1987	40,300	10,929	51,229	11,139,168	.46
1987-1988	28,500	8,410	36,910	11,750,067	.32

NOTE: Principal and interest on short-term general obligation notes are not included in this bonded debt schedule.

This schedule was prepared on the Statutory/Budgetary basis.

STATE OF MICHIGAN

NET GENERAL OBLIGATION BONDED DEBT PER CAPITA

LAST TEN YEARS
SEPTEMBER 30, 1988
(In Thousands)

FISCAL YEAR	POPULATION*	GROSS BONDED DEBT	LESS DEBT SERVICE FUNDS	NET BONDED DEBT	NET BONDED DEBT PER CAPITA (IN DOLLARS)
1978-1979	9,261	$482,500	$3,385	$479,114	51.73
1979-1980	9,241	439,100	6,179	432,920	46.85
1980-1981	9,196	409,600	5,837	403,762	43.91
1981-1982	9,099	361,000	6,204	354,795	38.99
1982-1983	9,056	309,300	7,960	301,339	33.28
1983-1984	9,107	259,300	3,132	256,167	28.13
1984-1985	9,137	241,700	2,607	239,092	26.17
1985-1986	9,160	198,000	5,669	192,330	20.99
1986-1987	9,210	157,700	2,413	155,287	16.86
1987-1988	9,315	129,500	3,953	125,547	13.48

*SOURCE: Federal Bureau of the Census and Michigan Department of Management and Budget.

STATE OF MICHIGAN
DEBT SERVICE COVERAGE
COMPREHENSIVE TRANSPORTATION FUND RELATED BONDS
LAST NINE YEARS (3)
September 30, 1988
(In Millions)

	1979-80 (3)	1980-81	1981-82	1982-83
Constitutionally Restricted Transportation Fund Revenues:				
Motor Fuel Taxes	$474.1	$446.4	$455.8	$464.4
Registration Taxes	236.2	211.0	213.5	237.7
Miscellaneous Fees	16.1	11.2	17.5	18.8
Total	726.5	668.6	686.8	720.9
Less Deductions	52.6	52.1	50.2	58.9
Remaining Balance	673.9	616.5	636.6	662.0
Portion of Balance Credited to Comprehensive Transportation Fund (excluding interest)	56.4 (1)	52.3 (1)	52.1	63.8
100% of Net Aircraft Fuel Taxes	4.7 (2)	4.2 (2)	3.9 (2)	-
Motor Vehicle Related Sales Tax Revenues	$342.7	$362.8	$363.7	$412.8
Allocation to Comprehensive Transportation Fund	21.2	24.0	25.4	24.5
Constitutionally Restricted Revenues Credited to Comprehensive Transportation Fund	82.3	80.5	81.4	88.3
Plus Other Revenues (primarily interest)	- (4)	- (4)	9.0	4.7
Money Available for Debt Service	82.3	80.5	90.4	93.0
Actual Annual Debt Service (5)	6.8	9.8	16.4	16.2
Debt Service Coverage	12.1x	8.21x	5.51x	5.74x

(1) The "Portion of Balance of Transportation Fund" revenues credited to the Comprehensive Transportation Fund for fiscal years 1979-80 and 1980-81 include interest.

(2) Net aircraft fuel taxes, licenses and other revenues are included in "Money Available for Debt Service" in fiscal years 1979-80, 1980-81, and 1981-82. Beginning in fiscal year 1982-83, net aircraft fuel taxes, licenses and other revenues are deposited directly in the Aeronautics Fund.

(3) The initial issue of Comprehensive Transportation bonds was sold in the 1979-80 fiscal year, therefore debt service coverage statistics are not applicable for 1978-79.

(4) "Money Available for Debt Service" does not include "Plus Other Revenues (primarily interest)" for fiscal years 1979-80 and 1980-81.

(5) The above table does not include debt service on refunded bonds.

1983-84	1984-85	1985-86	1986-87	1987-88
$570.7	$616.4	$644.7	$656.2	$ 696.7
255.9	286.7	300.0	315.6	363.2
20.4	24.4	25.4	23.6	31.0
847.0	927.5	970.1	995.4	1,090.9
56.7	61.6	68.2	69.7	81.0
790.3	865.9	901.9	925.7	1,009.9
78.5	87.4	90.3	92.6	101.7
-	-	-	-	-
$511.2	$590.7	$619.6	$593.3	$ 606.2
35.7	41.3	43.2	41.4	42.3
114.2	128.7	133.5	134.0	144.0
4.5	9.2	6.2	8.3	6.1
118.7	137.9	139.7	142.3	150.1
19.3	20.2	20.4	22.0	21.4
6.15x	6.83x	6.84x	6.47x	7.01x

STATE OF MICHIGAN
DEBT SERVICE COVERAGE
STATE TRUNKLINE FUND RELATED BONDS
LAST TEN YEARS
September 30, 1988
(In Millions)

	1978-79	1979-80	1980-81	1981-82
Constitutionally Restricted Transportation Fund Revenues:				
Motor Fuel Taxes	$503.4	$474.1	$446.4	$455.8
Registration Taxes	235.4	236.2	211.0	213.5
Miscellaneous Fees	12.6	16.1	11.2	17.5
Total	751.4	726.5	668.6	686.8
Less Deductions:				
Collection Costs	41.6	39.5	39.4	42.7
Mackinac Bridge Authority	3.5	3.5	3.5	3.5
Waterways/Recreational Improvement Fund	5.0	4.5	4.2	4.0
Comprehensive Transportation Fund (excluding interest)	57.8	55.3	50.8	51.8
Critical Bridge Fund	-	5.0	5.0	5.0
Economic Development Fund	-	-	-	-
Total Deductions	107.9	107.8	102.9	107.0
Constitutionally Restricted Revenues Available for Distribution	643.5	618.6	565.7	579.8
Plus Other Revenues (primarily interest)	9.8	11.4	13.0	10.1
Total Money Available for Distribution (2)	653.3	630.0	578.7	589.9
Distributions to:				
Cities and Villages (2)	135.4	130.9	122.6	123.1
County Road Commissions (2)	243.1	235.6	219.0	222.4
State Trunkline Fund (2)	271.9	260.4	241.5	244.6
State Trunkline Fund Money Available for Debt Service	271.9	260.4	241.5	244.6
Economic Development Fund Money Available for Debt Service	-	-	-	-
Total Available for Debt Service	271.9	260.4	241.5	244.6
Actual Annual Debt Service (1)	29.1	27.5	27.6	22.6
Debt Service Coverage	9.34x	9.47x	8.75x	10.82x

(1) The table above excludes amounts related to refunded bonds.

(2) Distributions to Cities and Villages, County Road Commissions, and State Trunkline for 1979-82 fiscal years may not equal Total Money Available for Distribution due to carry-overs in prior years.

SOURCE: Michigan Department of Transportation.

1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
$464.4	$570.7	$616.4	$644.7	$656.2	$ 696.7
237.7	255.9	286.7	300.0	315.6	363.2
18.8	20.4	24.4	25.4	23.6	31.0
720.9	847.0	927.5	970.1	995.4	1,090.8
51.0	48.5	52.4	57.4	62.2	66.1
3.5	3.5	3.5	3.5	-	-
4.3	4.8	5.7	7.3	7.5	10.1
63.9	78.5	87.4	91.1	93.3	101.7
5.0	5.0	5.0	5.0	5.0	5.0
-	-	-	-	-	21.6
127.7	140.3	154.0	164.3	168.0	204.5
593.2	706.7	773.5	805.8	827.3	886.3
6.4	8.2	7.3	8.0	7.1	7.6
599.6	714.9	780.8	813.8	834.4	893.9
124.2	157.0	170.3	178.7	183.4	196.8
230.7	280.2	304.5	317.1	325.5	348.7
247.5	277.7	306.0	318.0	325.5	348.4
247.5	277.7	306.0	318.0	325.5	348.4
-	-	-	-	-	21.6
247.5	277.7	306.0	318.0	325.4	370.0
16.9	28.7	40.6	32.8	29.3	23.7
14.64x	9.68x	7.54x	9.70x	11.11x	15.61x

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ECONOMIC AND SOCIAL DATA

STATE OF MICHIGAN

ECONOMIC AND SOCIAL DATA

GENERAL INFORMATION

On January 26, 1837, Michigan was admitted to the Union as the twenty-sixth state. It is located in the East North Central Census Region and is bordered by Canada and the states of Ohio, Indiana, and Wisconsin. Michigan contains 57,022 square miles of land mass (exclusive of 1,194 square miles of inland water and 38,575 square miles of great lakes water area) with 3,288 miles of shoreline on four of the five great lakes. A combined water and land area of 96,791 square miles makes it the tenth largest state.

POPULATION

The following table presents population trends for Michigan for the last ten years, estimated at September 30 (in thousands):

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Population......	9,261	9,241	9,196	9,099	9,056	9,107	9,137	9,160	9,210	9,315
Percent Change..........	.3%	(.2%)	(.5%)	(1.1%)	(.5%)	.6%	.3%	.3%	.5%	1.1%

Source:

U.S. Bureau of the Census (adjusted to September 30 by the Office of Revenue and Tax Analysis, Michigan Department of Management and Budget).

WEALTH

The following table presents per capita income, retail sales, taxable property, and bank deposits data during the years 1978-1987:

	Per Capita Income (a)		Retail Sales (b) (In Millions)		Taxable Property Value (c) (In Millions)	Bank Deposits (d) (In Millions)
YEAR	MI	U.S.	MI	U.S.	MI	MI
1978	$ 8,738	$ 8,136	$37,711	$ 894,343	$ 64,863	$ 45,809
1979	9,575	9,033	37,767	899,379	72,528	46,788
1980	10,165	9,919	38,532	959,561	82,646	62,905
1981	10,866	10,949	40,516	1,041,327	92,059	65,735
1982	11,101	11,480	39,239	1,072,065	98,210	68,312
1983	11,866	12,098	42,803	1,174,298	98,344	75,852
1984	13,030	13,114	47,012	1,297,015	100,171	80,919
1985	14,008	13,895	51,965	1,395,243	102,796	86,983
1986	14,807	14,606	55,686	1,476,173	106,242	93,960
1987	15,393	15,481	57,406	1,544,897	111,255	97,257

Sources:

(a) U.S. Department of Commerce, Bureau of Economic Analysis.
(b) Survey of Buying Power, Sales and Market Management Magazine, August 15, 1988.
(c) State of Michigan, Department of Treasury, Property Tax Division.
(d) State of Michigan, Department of Commerce, Financial Institutions Bureau. The amounts shown include state and national banks, state and federal (but not federal before 1980) credit unions, and state and federal (but not federal before 1980) savings and loan associations.

EMPLOYMENT

The following table presents employment data (expressed in thousands) for the State of Michigan for the calendar years 1978-1987:

Year	Total Labor Force	Total Employment	Unemployment	Unemployment Rate
1978	4,196	3,908	289	6.9%
1979	4,314	3,979	335	7.8%
1980	4,293	3,759	534	12.4%
1981	4,306	3,777	529	12.3%
1982	4,277	3,616	661	15.5%
1983	4,286	3,678	608	14.2%
1984	4,347	3,860	486	11.2%
1985	4,352	3,920	433	9.9%
1986	4,391	4,005	385	8.8%
1987	4,523	4,154	369	8.2%

Wage and salary employment for calendar years 1983-1987 consisted of the following (in thousands):

Wage and Salary Employment	1983	1984	1985	1986	1987
Manufacturing					
Durable Goods:					
Lumber & Wood	10.8	12.2	12.7	13.2	13.5
Furniture & Fixtures	22.2	24.8	26.7	28.2	31.2
Primary Metals	49.5	53.6	52.0	49.9	48.7
Fabricated Metals	102.9	118.6	124.5	122.8	118.7
Nonelectric Machinery	116.9	129.4	134.1	132.6	123.2
Electric Machinery	30.6	34.1	36.1	37.7	36.8
Transportation Equipment	317.5	343.7	361.3	359.7	335.5
Other Durables	35.3	39.0	39.6	39.2	39.2
Total Durable Goods	685.8	755.3	787.0	783.3	746.8
Nondurable Goods:					
Food & Kindred	45.4	45.8	45.8	45.5	45.1
Textiles & Apparel	18.8	20.8	22.6	22.9	21.9
Paper & Allied Products	20.4	21.1	21.3	21.1	20.8
Printing & Publication	34.0	36.7	37.9	38.5	38.9
Chemicals & Petroleum	42.8	43.0	43.5	42.3	43.3
Other Nondurables	33.3	40.2	44.3	46.8	49.2
Total Nondurables	194.7	207.6	215.4	217.1	219.2
Total Manufacturing	880.5	962.8	1,002.4	1,000.4	966.0
Nonmanufacturing					
Construction	86.5	92.7	107.8	115.2	121.2
Transportation Communications and Utilities	139.4	140.2	145.9	149.0	150.3
Wholesale Trade	154.6	166.3	174.6	180.9	186.1
Retail Trade	556.9	579.5	617.4	638.7	669.0
Finance, Insurance and Real Estate	151.4	154.4	163.3	171.0	179.1
Services	675.0	708.0	759.5	793.8	817.5
Mining	9.0	10.0	9.9	9.6	9.8
Total Nonmanufacturing	1,772.8	1,851.0	1,978.4	2,058.4	2,133.0
Government	569.8	567.2	580.7	598.6	614.1
Total Wage and Salary Employment	3,223.1	3,381.0	3,561.5	3,657.3	3,713.2

Source: Michigan Employment Security Commission.